

# The Most Trusted Name in Seniors Housing



**PROFILE** Chartwell is a growth-oriented owner and operator of the complete spectrum of seniors housing communities. It is the largest participant in the Canadian seniors housing business with a growing presence in the United States. Chartwell capitalizes on the strong demographic trends present in its markets to grow internally and through accretive acquisitions. Chartwell also has an exclusive option to purchase stabilized communities from Spectrum, Canada's largest and fastest-growing developer of seniors housing.

#### CONTENTS

1	Financial Highlights
2	Our Vision and Mission
2	Chartwell at a Glance
8	Report to Unitholders
15	Acquisitions
16	Internal Growth
19	Development
20	Third-Party Management
23	Summary of Seniors Housing Communities
24	Financial Performance for 2006



#### CHARTWELL'S CIRCLE OF EXCELLENCE

*At Chartwell, people are our most important asset. To recognize excellence among our managers, administrators and regional staff across Canada, we instituted our Circle of Excellence awards to celebrate those individuals who are making a positive difference in the lives of our residents, in our working environment and in building our brand as the most trusted name in seniors housing. In this year's annual report, you will meet and learn more about some of our 2006 Circle of Excellence award winners.*

# Financial Highlights

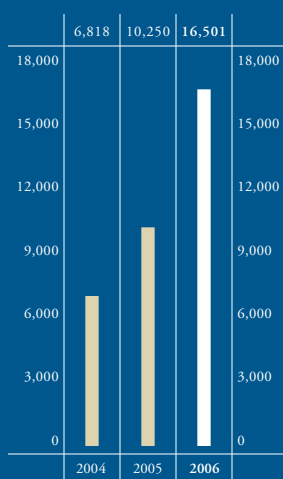
(In thousands of Canadian dollars, except per unit amounts and number of suites)

Year ended December 31	2006	2005
Total Revenues	\$ 350,575	\$ 224,627
Funds from Operations	\$ 60,249	\$ 41,956
Funds from Operations per Unit (diluted)	\$ 0.91	\$ 0.89
Distributable Income	\$ 60,824	\$ 50,191
Distributable Income per Unit (diluted)	\$ 0.92	\$ 1.07
Distributions declared	\$ 71,122	\$ 50,457
Distributions declared per Unit (diluted)	\$ 1.07	\$ 1.07
Weighted Average Units Outstanding (diluted)	66,299,779	47,083,113
Real Property Investments	\$ 1,510,209	\$ 957,244
Number of Suites – owned portfolio	16,501	10,250

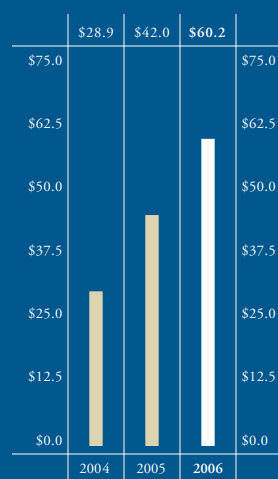
Revenues  
(\$ millions)



Owned Portfolio  
(Number of Units)



Funds from Operations  
(\$ millions)



# Our Vision

*☞* To create and operate seniors housing communities where our residents enjoy a lifestyle and quality of life that exceed their expectations.

# Our Mission

*☞* To be the most trusted name in seniors housing.

*☞* To provide accommodation, care and services in every home, reflective of our residents' needs, preferences and interests, and adapt as they evolve.

*☞* To ease the transition through the various stages of aging by providing a full continuum of care in the markets we serve.

*☞* To provide comfort and assurance to the families of our residents that their loved ones are treated with the highest level of care, compassion and respect.

*☞* To attract and retain the best employees by providing a rewarding and fulfilling work environment.

*☞* To generate reliable, sustainable and growing distributions for our Unitholders.





**CHRISTINE LANGTON AND DOREEN JACKSON**

*Circle of Excellence Award Winner Christine Langton  
Administrator, Ballycliffe Lodge  
AJAX, ONTARIO*

Christine joined Ballycliffe Lodge in 2003 and immediately contributed to a stronger and more organized management team. Through her hard work and dedication, Christine has focused her team on improved resident satisfaction and achievement of their business goals.

Chartwell at a Glance Today's seniors are wealthier, healthier and wiser than ever before. To meet increasing demand for high-quality seniors residences, Chartwell's modern and well-appointed property portfolio offers larger suites and more programs and services, all supported by people committed to the highest levels of care and services.

## 2006 Operating Highlights

1. Acquired interests in 37 seniors housing communities for a total investment of \$615 million.
2. Increased pipeline of properties under development to more than 6,000 suites.
3. Total portfolio\* grew to 25,429 suites in 195 communities.
4. Same property occupancies rose to 93.4% from 91.9% in 2005.
5. Same property revenues rose 5.7%.
6. Same property net operating income increased 7.4%.
7. Funds from Operations per Trust Unit rose 2.2%.

\* Including suites owned, managed, in lease-up and in various stages of development.

We have a strong and growing portfolio that is geographically diversified across North America.

<b>A</b> British Columbia	11%
<b>B</b> Alberta	4%
<b>C</b> Other provinces	1%
<b>D</b> Ontario	38%
GTA	14%
west	10%
east	7%
north	7%
<b>E</b> Quebec	30%
<b>F</b> United States	16%



## Portfolio Growth

CANADA	2006	2005
Owned Suites	12,344	8,742
Managed Suites	2,717	3,245
Under Development	6,211	6,184
Total Canadian Suites (84%)	21,272	18,171
USA	2006	2005
Owned Suites	4,157	1,508
Total U.S. Suites (16%)	4,157	1,508
<b>Total</b>	<b>25,429</b>	<b>19,679</b>

## Key Success Factors

### PEOPLE

Our top priority is care and quality service for our residents. Our on-site managers are our most valuable resource. They interact daily with residents, families and communities, and are the most professional in the business. All our managers are owners in Chartwell through our Long Term Incentive Plan.

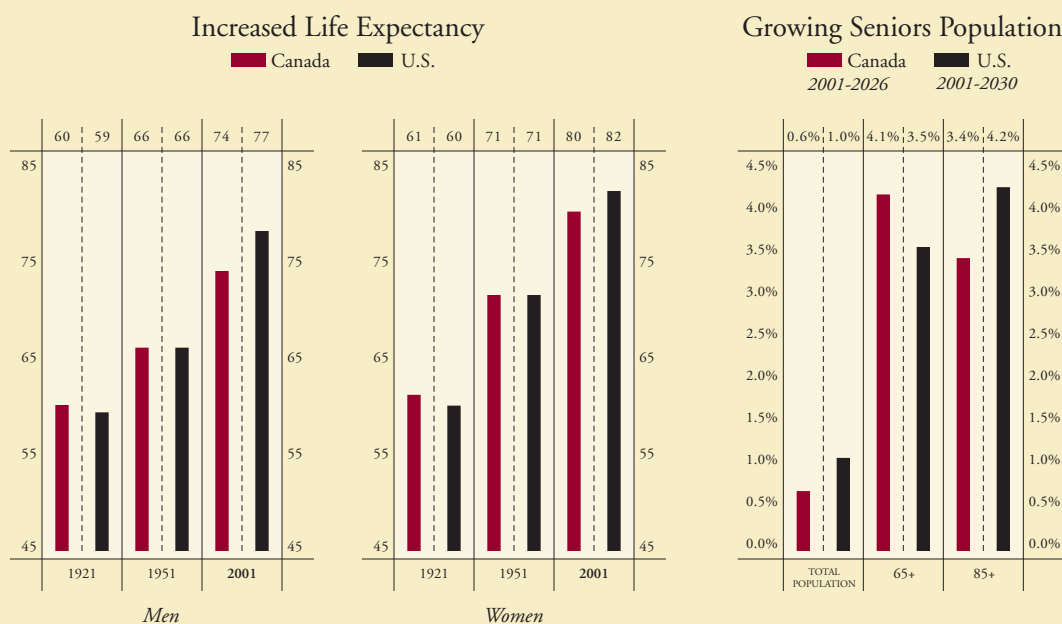
### COMMUNITIES

Continual property upgrades and ongoing capital improvements ensure a modern, attractive and high-value portfolio.

### MANAGEMENT

Senior management has many years of seniors housing experience in operations, marketing, financing, acquisitions and development.

## Today's seniors are healthier, with increased life expectancies in both Canada and the United States



*More than 11,000 new suites would be required each year until 2026 just to maintain current supply ratios in Canada – that's 110 new 100-suite communities every year.*

*The seniors population is growing at a rate of three to four times faster than the general population.*

## The Full Spectrum of Care

	Independent Living	Light-Care Retirement Home	Full-Care Retirement Home	Assisted Living Retirement Home	Long-Term Care Community
Chartwell Suite Mix	52%	18%	8%	6%	16%
Occupancy Levels	95%	90-95%	90%	90%	97-100%
Operating Margins	50-55%	45-50%	30-40%	30-40%	12-18%
Monthly Fees	\$900-5,000	\$1,200-5,000	\$1,900-6,000	\$2,400-5,000	\$3,837-4,384
Government Funding	\$0	\$0	\$0	\$0	\$2,300





**LYNN HILL AND MARGARET MCGILL**

*Circle of Excellence Award Winner Lynn Hill  
General Manager, Hartford Retirement Centre  
MORRISBURG, ONTARIO*

A dedicated team member, Lynn joined Chartwell in 2004. Each day she takes the time to make every person she comes in contact with – whether it's a visitor, resident, family or staff member – feel like a true friend.

## Report to Unitholders

2006 was another year of significant growth for Chartwell as we became Canada's largest owner and operator of seniors communities and expanded our presence in the strong United States retirement home market.

As a result of this accretive growth, we generated solid gains in most of our financial and operating metrics.

### A Year of Significant Growth

Building on our strong growth in 2005, we invested approximately \$615 million during 2006 in the acquisition of 37 seniors housing communities containing 5,720 suites. Subsequent to the year end, we added an additional 35 communities to the portfolio containing 6,855 suites for a total investment of \$279 million.

As a result of this considerable growth, Chartwell was transformed into Canada's largest owner and operator of seniors communities, with 25,429 suites in 195 well-located residences in key markets across the country. In addition, the purchase of properties and portfolios in the United States expanded our presence in carefully selected U.S. growth markets to 4,157 suites in 22 communities.



From left to right:  
Robert I. Ezer, President and Co-CEO;  
Stephen A. Suske, Vice Chair and Co-CEO;  
W. Brent Binions, Senior Executive Vice President

Including acquisitions completed and announced to March 31, 2007, we will own interests in 17,830 suites, while our total portfolio of owned, managed and suites under development will aggregate 33,025 suites. The portfolio is well-diversified geographically and covers the complete spectrum of care from independent living, light-care and full-care retirement homes through assisted living to long-term care communities. Approximately 70% of the portfolio is positioned in the higher margin retirement home segment, the key focus of our growth across North America.

In addition to our acquisition activity, we also extended mezzanine loans of approximately \$30.1 million during 2006 to our development partners, with

a further \$3.7 million invested after the year end. With these loans, we continue to build our pipeline of new retirement communities available for potential future acquisition once completed and fully stabilized. Currently our development partners have more than 6,000 suites in various stages of development and lease-up, and Chartwell has a right of first refusal to acquire these properties over time. In the interim, we receive a steady stream of recurring revenues from interest on our loans, as well as development fees and other income.

## A Year of Strong Performance

As a result of the considerable growth generated over the past two years, total revenues increased 56% in 2006 compared to the prior year. Property revenues rose 58% through acquisitions, and there was a 5.7% increase in same property revenues. We improved occupancies, increased average rents and introduced new resident services during the year. Mezzanine loan income rose 32% compared to 2005, while our fee income jumped 37%, primarily the result of our new agreement to provide due diligence, project management and asset management services to our U.S. joint venture partner.

This increase in operating revenues during the year resulted in a 44% rise in funds from operations while, despite the 41% increase in the weighted average number of Units outstanding, funds from operations grew to \$0.91 per fully diluted Unit from \$0.89 last year. As we fully invest the proceeds from the two offerings of Trust Units completed in 2006, we are confident this solid accretive growth will accelerate.

Complementing this growth, our dedication to providing the highest level of care and service to our residents resulted in solid increases in same property net operating income, while the weighted average occupancy in our same property portfolio improved to

93.4% from 91.9% in the prior year. All of these achievements helped us to strengthen our brand as North America's most trusted name in seniors housing.

Capital markets activities also resulted in our market capitalization rising to \$1.2 billion as at December 31, 2006, positioning us as one of Canada's largest real estate investment trusts. Since we entered the public capital markets in November 2003, we are pleased that our growth and success have generated an average compound annual return of 18.8% for our Unitholders.

## Leveraging our Strengths

Looking ahead, Chartwell possesses a number of key strengths that we are confident will lead to further growth and enhanced performance going forward.

Our growing property portfolio is one of the most modern in North America, as the majority of our residences are less than 10 years old. Our communities contain larger suites and offer more programs and services than most of our competitors, and their attractive landscaping, enhanced technologies and sophisticated safety systems make them places our residents are proud to call home.

We are also committed to ensuring our communities remain in top shape through a continual program of property maintenance and upgrades, as well as the ongoing re-investment of 2% of gross revenues in our properties. These investments will also ensure our industry-leading portfolio continues to increase in value.

Our on-site property managers and staff are the most professional in the business, and all truly enjoy the opportunity to work and interact with today's seniors. At Chartwell, our top priorities are care and service, and this dedication is reflected in our success.



## Seniors Appreciation Day

On June 21, 2006, we were very proud to launch Chartwell's first National Appreciation of Seniors Day to honour and celebrate seniors for the outstanding contributions they have made to communities across Canada. Seniors play a valuable role in today's society as almost one-third of Canadians 65 years and older volunteer an average of 245 hours per year, which is considerably higher than any other age group.

To demonstrate our respect and admiration, we hosted events in every one of our Canadian residences to honour individual seniors who have made extraordinary contributions to their communities. As a leader in the business of taking care of our nation's moms and dads, we are in a unique position to see the commitment and dedication displayed by seniors in this country. We were proud to celebrate seniors and hope this recognition provides an opportunity for all Canadians to acknowledge their many accomplishments.

## An Exciting Future

Demand for seniors housing continues to grow in North America, driven by powerful demographics and a seniors population that is healthier, wealthier and wiser than ever before. To capitalize on these strong industry fundamentals, we will continue to leverage our key strengths and execute the same four growth drivers that have generated such strong performance in the past.

First, our affiliation with Spectrum, Canada's largest and fastest-growing seniors housing developer, as well as other third-party development partners, will add brand-new, modern communities to our portfolio designed to our exacting standards. These residences meet specific market needs, and are generally sold to us at a discount to appraised value. In the interim, our mezzanine financing and development management programs are generating increased cash flow through interest and fees while mitigating development and lease-up risk for our Unitholders.

Our communities contain larger suites and offer more programs and services than most of our competitors. Their attractive landscaping, enhanced technologies and sophisticated safety systems make them places our residents are proud to call home.

Second, we will continue to consolidate the highly-fragmented seniors housing business. In Canada, the 10 largest industry participants own only 23% of the total communities in the country, providing Chartwell with a significant opportunity to leverage its proven acquisition expertise. Our goal in 2007 is to acquire approximately \$1.2-\$1.5 billion in new properties, of which approximately \$0.3 billion is expected to come from Spectrum and our other development partners.

Third, internal growth initiatives will optimize revenue opportunities from our existing portfolio as we enhance occupancies and bring our fee structure up to market levels in specific geographic regions. We will evaluate the addition of new suites at existing homes and the introduction of new programs and services to enhance the lives of our residents while increasing cash flows. We will also carefully monitor and control our costs and maintain our target of keeping general and administrative expenses at less than 5% of gross revenues.

Fourth, as one of Canada's largest third-party managers of seniors living communities, we will continue to leverage our skills and experience to provide operations and marketing support to third-party owners across Canada. In addition to generating fees, this allows us to gain valuable insight into new markets and potential future acquisitions.

In December 2006, the federal government introduced draft legislation relating to proposed changes to the taxation of income trusts in Canada. While the proposed legislation may result in Chartwell being subject to the proposed tax, we are confident the impact will be minimal. Our business is strong and robust, and we will continue to execute our strategies to capitalize on the significant growth opportunities present in the North American marketplace so as to enhance Unitholder value. We will also continue to monitor the proposed legislation as events unfold.

In summary, we are very excited about our future. The investments made over the past few years have created a dynamic and world-class seniors housing platform possessing significant value. As one of North America's largest providers of housing for seniors, we have the critical mass and the financial resources to capitalize on the strong fundamentals in our industry, in addition to an experienced and dedicated management team focused on executing our proven strategies to enhance returns for our Unitholders.

In closing, we would like to thank everyone at Chartwell for their hard work and ongoing commitment. It is their efforts that have led to our success in 2006, and will continue to reinforce our brand as North America's most trusted name in seniors housing.



Stephen A. Suske  
VICE CHAIR AND CO-CEO



Robert I. Ezer  
PRESIDENT AND CO-CEO



W. Brent Binions  
SENIOR EXECUTIVE VICE PRESIDENT





**CASEY RAM AND NED CUTLER**

*Circle of Excellence Award Winner Casey Ram*  
*Associate Vice President of Operations, Chartwell Head Office*  
MISSISSAUGA, ONTARIO

Casey is responsible for Chartwell's retirement residences in the Greater Toronto and Golden Horseshoe region. As the award winner in the Regional Support Team Leader category, Casey is widely recognized for his compelling management style and dedication to continuously improving our resident services.



everyday heroes | 4

**FRANCINE VIENT AND GISEÈLE LABRIE**

*Circle of Excellence Award Winner Francine Vien*  
*General Manager, Résidence Domaine du Château de Bordeaux*  
QUEBEC CITY, QUEBEC

Since her arrival at le Résidence Domaine du Château de Bordeaux over two years ago, Francine's joy and enthusiasm has spread to those around her, and she is deeply appreciated by residents and staff in her community.



## ACQUISITIONS

We met our growth target in 2006, investing \$615 million in the acquisition of 37 high-quality, well-located seniors communities across North America.



**W**E GENERATED ANOTHER year of significant growth in 2006 as the acquisition of 5,720 suites in key growth markets transformed Chartwell into Canada's largest owner and operator of seniors housing communities and the fifth largest in North America.

In Canada, acquisitions in targeted regions in Quebec, Ontario and British Columbia extended our presence in high-growth areas. We entered new markets during the year, including Newfoundland and Labrador and the Guelph/Kitchener-Waterloo region, which provide us with a solid platform for further growth.

We also strengthened our presence in the vibrant U.S. seniors housing market with the purchase of high

quality residences in Tennessee, Michigan, Alabama, Oklahoma, Florida, Texas, Virginia, Ohio and Colorado. Currently, our U.S. properties comprise approximately 30% of our total portfolio, and our ongoing joint venture relationships with ING Real Estate Australia and Horizon Bay continue to mitigate Unitholder risk in our U.S. growth program.

Looking ahead, our target is to invest approximately \$1.2-\$1.5 billion in acquisitions in 2007 to further expand the size and scale of our property portfolio. As our portfolio grows, we will also capture economies of scale and cost synergies to enhance cash flow for the benefit of our Unitholders.

**INTERNAL GROWTH** Our organic growth initiatives in 2006 generated solid benefits for Unitholders as occupancies improved, average rents increased and new services contributed to a 7.4% increase in same property net operating income.



**A**T CHARTWELL, OUR TOP PRIORITY is the care and service of our residents. To enhance our residents' experience within the Chartwell family, we are constantly seeking ways to add new services, to improve our properties and their amenities, and to ensure our entire portfolio is maintained to the highest standards in the industry.

During 2006, we continued to invest in our properties, including the addition and expansion of suites within residences, the upgrading of common areas, foyers, amenity areas and landscaping, as well as enhanced fire and safety, security and communications systems. All of these initiatives are aimed at strengthening Chartwell's brand as North America's most trusted name in seniors housing.

As a result of these investments, and our ongoing commitment to delivering the best care and service to our residents, the weighted average occupancy in the same property portfolio rose to 93.4% from 91.9% last year, while average rents also increased. The introduction of new services and the addition of new and upgraded suites in a number of properties resulted in same property revenues growing 5.7% from the prior year.

While investments in our internal growth programs strengthen relationships with our residents and their families, they also generate strong returns and enhanced cash flow for our Unitholders in the long term.

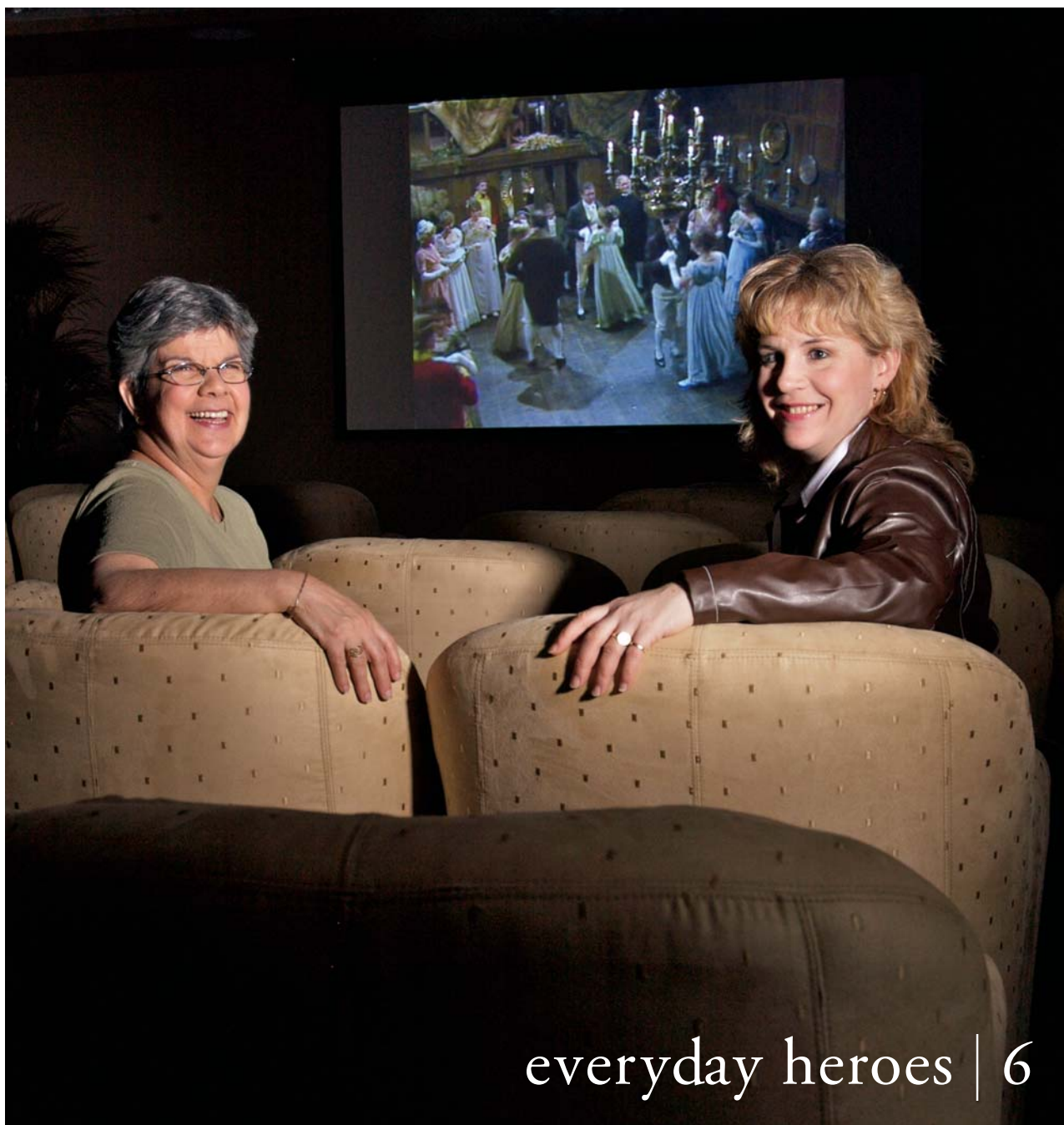


**KEVIN CUNDARI AND JOHN CHESHIRE**

*President's Award Winner 2006 Kevin Cundari  
General Manager, Chartwell Select  
Renaissance Retirement Residence  
KAMLOOPS, BRITISH COLUMBIA*

Kevin, our Circle of Excellence and President's Award winner for 2006, is an experienced team leader and is recognized for his exceptional problem-solving skills. His nomination comments stated that "Kevin comes up with a solution before we even know we have a problem."





## everyday heroes | 6

### LUCIE LEMYRE AND ANGÈLE PROVENCHER

*Circle of Excellence Award Winner Lucie Lemyre  
General Manager, Résidence Le Duplessis  
TROIS-RIVIÈRES, QUEBEC*

Lucie is a highly responsible and hard working member of the Chartwell team and, while consistently achieving her financial and operational goals, she never forgets that her ultimate responsibility is the care and service of her residents.



**DEVELOPMENT** Chartwell's relationships with independent seniors housing developers continue to expand our pipeline of acquisition opportunities, while generating a growing revenue stream of mezzanine interest and development fees.



OUR PRIMARY RELATIONSHIP is with Spectrum, Canada's largest and fastest-growing developer of seniors residential communities. During 2006 we acquired interests in four fully-stabilized properties in Ontario and British Columbia from Spectrum. We also strengthened our relationships with other third-party developers, including Le Groupe Melior, our partner in Quebec.

At the end of 2006, we had \$101.3 million of mezzanine loans advanced to Spectrum and other development partners, expanding our pipeline of potential properties under development or in lease-up to more than 6,000 suites across the country. We have a first right to purchase these properties once they are completed and fully-stabilized at an average occupancy rate of 90% or greater. The majority of these acquisitions will be made at a discount to appraised value, further increasing the value of our portfolio.

While we wait for these acquisition opportunities to materialize, we receive interest on mezzanine loans, as well as fees for property and asset management, acquisition due diligence and other services. As a result of increased development activity by our partners and our growth in the United States, our mezzanine loan interest grew by 32% and our fee revenues grew by 37% in 2006, compared to the prior year.

### THIRD-PARTY MANAGEMENT

In addition to providing a stable and growing base of revenue, our third-party management activities provide valuable market insight and a new source of acquisition opportunities.



AS ONE OF NORTH AMERICA'S largest owners and operators of seniors housing communities, we are leveraging our considerable experience to manage seniors residences for a number of third-party owners, including Spectrum, Melior and others. We help our clients with market positioning, community promotion and improving the operational efficiency of their seniors housing communities. In addition, our community and program development services assist our clients with site selection, rezoning, obtaining necessary approvals and advising on design specifications for communities under development.

As of December 31, 2006, we were providing various management services for more than 9,000 suites in

64 communities owned by Spectrum, Melior and other established developers and third-party owners across Canada and the United States. During 2006 we also significantly increased our asset management and due diligence project management services to ING Real Estate Australia, our capital partner in the United States.

In addition to generating high-margin fees and cash flow for Chartwell and its Unitholders, our third-party management business also provides us with valuable insight into specific geographic markets and the ability to evaluate additional development opportunities for our third-party partners. We are also building strong relationships with these independent operators to grow our pipeline of potential future acquisitions.



## everyday heroes | 7

### **RAEGAN RUSSELL AND ERMA PERSOAGE**

*Circle of Excellence Award Winner Raegan Russell*  
*General Manager, Carrington Place Retirement Residence*  
MISSION, BRITISH COLUMBIA

Raegan delights in providing service to seniors. She has been with Carrington Place for just over a year, and is recognized as the ultimate team player and a champion for those who need her support. She has quickly gained the respect of our residents, families and staff.





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As the fifth-largest owner and operator of retirement communities in North America, Chartwell offers the complete spectrum of care in communities carefully designed to meet the needs of today's most discerning seniors and their families.

# Summary of Seniors Housing Communities

## Owned, Managed and Under Development

	Number of Communities	Number of Suites <sup>(4)</sup>	Average Resident Occupancy <sup>(10)</sup>
<i>Seniors Housing Communities Owned by Chartwell</i>			
Independent Living Communities	45	8,213	91%
Retirement Homes	66	5,942	89%
Long-Term Care Communities <sup>(11)</sup>	20	2,346	97%
<b>Total Owned by Chartwell</b>	<b>131 <sup>(2), (3)</sup></b>	<b>16,501 <sup>(9)</sup></b>	<b>91%</b>
<i>Seniors Housing Communities Managed by Chartwell for Third Parties</i>			
Stabilized and Lease-Up			
Independent Living Communities	5	528	
Retirement Homes	10	1,601	
Long-Term Care Communities <sup>(11)</sup>	6	495	
<b>Subtotal</b>	<b>21 <sup>(4)</sup></b>	<b>2,624</b>	
Under Development			
Independent Living Communities	1	93	
Retirement Homes	0	0	
Long-Term Care Communities <sup>(11)</sup>	0	0	
<b>Subtotal</b>	<b>1</b>	<b>93</b>	
<b>Total Managed for Third Parties</b>	<b>22</b>	<b>2,717</b>	
<i>Seniors Housing Communities Under Development by Spectrum <sup>(6), (7)</sup> and Managed by Chartwell and Seniors Housing Communities Under Development by Melior <sup>(8)</sup></i>			
Lease-Up <sup>(6)</sup>			
Independent Living Communities	8	1,306	
Retirement Homes	9	938	
Long-Term Care Communities <sup>(11)</sup>	1	148	
<b>Subtotal</b>	<b>18 <sup>(5)</sup></b>	<b>2,392</b>	
Under Development			
Independent Living Communities	17	3,003	
Retirement Homes	6	731	
Long-Term Care Communities <sup>(11)</sup>	1	85	
<b>Subtotal</b>	<b>24 <sup>(5)</sup></b>	<b>3,819</b>	
<b>Total Developed by Spectrum and Managed by Chartwell</b>	<b>42</b>	<b>6,211</b>	
<b>Total Homes Owned or Managed by Chartwell</b>	<b>195</b>	<b>25,429</b>	

(1) As of December 31, 2006. The number of suites within a community may vary from time to time as suites may be reconfigured to meet residents' needs.

(2) Twenty-three of these communities provide more than one type of care. All of these communities are 100% owned by Chartwell, except for one community that is 39% owned by Chartwell, two communities that are 50% owned by Chartwell, seven communities that are 50% owned by Chartwell through its joint venture with Melior and 21 communities that are 50% owned by Chartwell through the Chartwell-ING joint venture. As well, the land on which one of the communities is located is held through a long-term leasehold interest.

(3) Where the community provides more than one level of care, it has been designated according to the predominant level of care provided.

(4) Three communities provide more than one type of care.

(5) One community provides more than one type of care.

(6) Spectrum's ownership interest in these properties varies from property to property.

(7) Includes planned suites at communities under construction or at various stages of development where construction has not commenced and where Spectrum's interest may be under a letter of intent or purchase and sale agreement that is conditional upon rezoning, marketing studies or other approvals.

(8) Melior, either solely or with its joint venture partner(s), is currently developing six projects in Quebec with an intended 1,207 suites included in this amount. Chartwell may provide mezzanine financing in respect of these projects.

(9) 259 suites are in respect of additions being made to four communities owned by Chartwell.

(10) The Average Resident Occupancy Rate is provided only for communities owned by Chartwell.

(11) For purposes of the annual report, communities are classified as LTC communities solely on the basis of the level of care provided. For the purposes of segmented financial information and management's discussion and analysis, Chartwell categorizes communities as LTC communities based on the predominant level of care provided, type of licensing and funding provided, and Chartwell's internal management responsibility, and accordingly, the number of LTC communities and suites reported is higher than in the Chartwell's management discussion and analysis.

# Financial Performance for 2006

## CONTENTS

25	Management's Discussion and Analysis
65	Management's Responsibility for Financial Statements
65	Auditors' Report
66	Consolidated Balance Sheets
67	Consolidated Statements of Operations
68	Consolidated Statements of Unitholders' Equity
70	Consolidated Statements of Cash Flows
71	Notes to Consolidated Financial Statements
94	Corporate Information



# Management's Discussion and Analysis

for the years ended December 31, 2006 and 2005

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following management's discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the year ended December 31, 2006. This MD&A should be read in conjunction with Chartwell's audited annual 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](http://www.chartwellreit.ca). Additional information about Chartwell, including the Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of 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 the 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. (Refer to the Risks and Uncertainties section on page 61 of this MD&A.) Subject to applicable law, Chartwell does not undertake any obligation to publicly update or revise any forward-looking statements.

## Business Overview

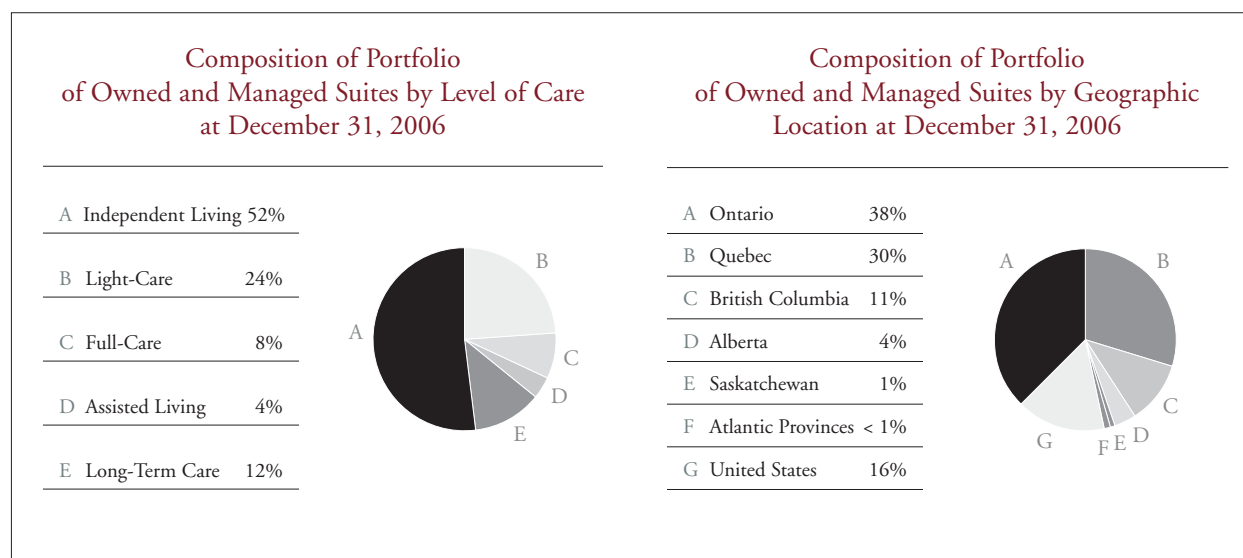
Chartwell commenced operations on November 14, 2003 following the completion of its initial public offering. Chartwell did not hold any material assets prior to November 14, 2003 and is considered to have commenced operations on that date.

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 the "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 <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup> <sup>(5)</sup>	17 <sup>(1)</sup>	22 <sup>(4)</sup>	64 <sup>(2)</sup>	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 nine communities (1,475 suites) where Chartwell owns a 50% interest and one 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.



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 the acquisitions of seniors housing communities in the United States. 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.

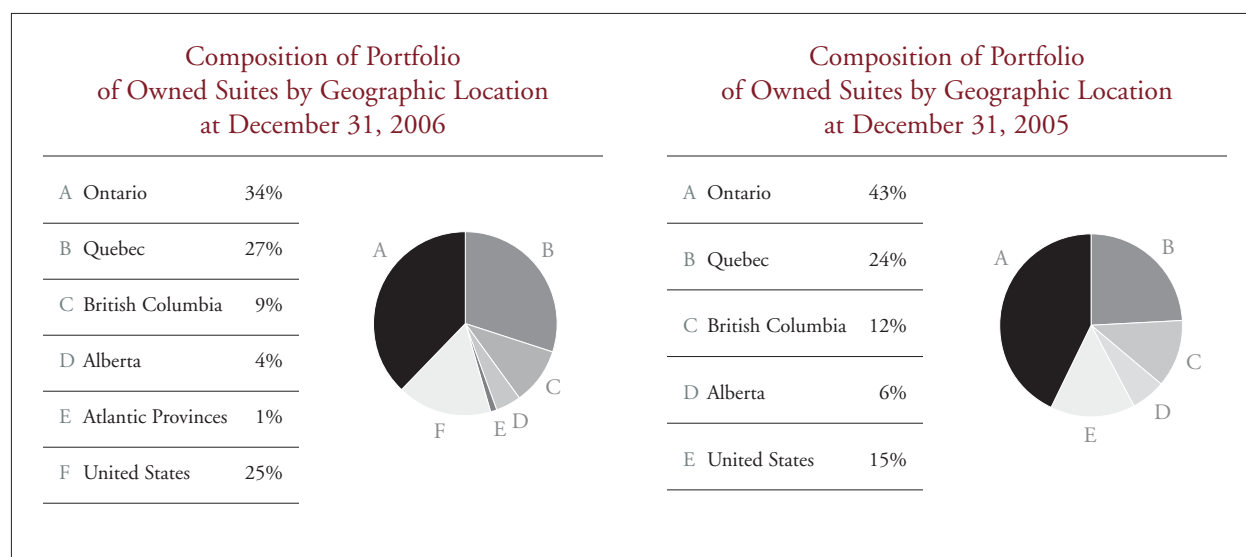
Chartwell's properties in the United States are managed by Horizon Bay Chartwell LLC ("HBC"). Chartwell owns a 50% interest in HBC.

#### 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 <sup>(1)</sup>	December 31, 2005 <sup>(2)</sup>
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 one 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 one community (55 suites) in which Chartwell owns a 39% interest.



## Significant Events

The following events 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:

(\$ 000s)	Q4, 2006	Q3, 2006	Q2, 2006	Q1, 2006	Total Year Ended Dec. 31, 2006
Number of Communities	9 <sup>(3)</sup>	10 <sup>(2)</sup>	16 <sup>(1)</sup>	2	37
Number of Suites	1,954 <sup>(3)</sup>	911 <sup>(2)</sup>	2,627 <sup>(1)</sup>	228	5,720
Purchase price (including closing costs)	\$ 247,553	\$ 116,416	\$ 230,974	\$ 19,610	\$ 614,553
<i>Financed as follows:</i>					
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

No.	Community	Location	Type	Effective date of acquisition	Beds/Suites
1	Chateau Cornwall <sup>(3)</sup>	Cornwall, ON	Retirement	January 13, 2006	101
2	Manoir Pierrefonds	Montreal, QC	Long-term care	February 23, 2006	127
3.	Castel Royale	Montreal, QC	Retirement	April 28, 2006	255
4.	Mayfield	Prescott, ON	Retirement	May 1, 2006	62
5.	Wiser Hall	Prescott, ON	Retirement	May 1, 2006	8
6.	Town Village Audubon Park <sup>(1)</sup>	Memphis, TN	Retirement	May 11, 2006	176
7.	Town Village Sterling Heights <sup>(1)</sup>	Sterling Heights, MI	Retirement	May 11, 2006	222
8.	Town Village Vestavia Hills <sup>(1)</sup>	Birmingham, AL	Retirement	May 11, 2006	198

No.	Community	Location	Type	Effective date of acquisition	Beds/Suites
9.	Town Village Tulsa <sup>(1)</sup>	Tulsa, OK	Retirement	May 11, 2006	222
10.	Bella Vita <sup>(1)</sup>	Venice, FL	Retirement	May 15, 2006	115
11.	Gayton Terrace <sup>(1)</sup>	Richmond, VA	Retirement	May 15, 2006	100
12.	Village at Lowry <sup>(1)</sup>	Denver, CO	Retirement	May 15, 2006	169
13.	Waterford <sup>(1)</sup>	Dayton, OH	Retirement	May 15, 2006	110
14.	Willow Wood <sup>(1)</sup>	Ft. Lauderdale, FL	Retirement	May 15, 2006	278
15.	Woodside Village <sup>(1)</sup>	Bedford, OH	Retirement	May 15, 2006	220
16.	Wyndham Lakes <sup>(1)</sup>	Jacksonville, FL	Retirement	May 15, 2006	248
17.	Amberpark <sup>(1)</sup>	Cincinnati, OH	Retirement	May 15, 2006	125
18.	Residence Le Riverain	Granby, QC	Retirement	June 1, 2006	119
19.	Langley Gardens and Langley Gardens at Village Square <sup>(2)</sup>	Langley, BC	Retirement	July 10, 2006	–
20.	Elizabeth Towers	St. John's, NL	Retirement	August 1, 2006	104
21.	Chateau Gardens Parkhill	Parkhill, ON	Long-term care	August 1, 2006	59
22.	Chateau Gardens London	London, ON	Long-term care	August 1, 2006	95
23.	Chateau Gardens Niagara	Niagara-on-the-Lake, ON	Long-term care	August 1, 2006	124
24.	Chateau Gardens Aylmer	Aylmer, ON	Long-term care	August 1, 2006	60
25.	Chateau Gardens Elmira	Elmira, ON	Long-term care	August 1, 2006	48
26.	Chateau Gardens Lancaster	Lancaster, ON	Long-term care	August 1, 2006	60
27.	Lake Worth Gardens <sup>(1)</sup>	Lake Worth, 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, QC	Retirement	November 9, 2006	810
31.	Van Horne Manor	Smiths Falls, ON	Retirement	November 16, 2006	58
32.	Southwind <sup>(3)</sup>	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 <sup>(3)</sup>	LaSalle, ON	Retirement	December 14, 2006	113
37.	Treemont	Dallas, TX	Retirement	December 27, 2006	256
36.	Peninsula <sup>(1) (3)</sup>	White Rock, BC	Retirement	December 28, 2006	127
					5,720

1. Chartwell acquired a 50% interest in these communities.

2. Chartwell previously owned a 50% interest in these communities and has 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

No.	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, QC	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 <sup>(1)</sup>	Langley, BC	Retirement, Long-term care	July 11, 2005	153
15.	Langley Gardens at Village Square <sup>(1)</sup>	Langley, BC	Retirement	July 11, 2005	92
16.	Centennial Retirement Residence	Oshawa, ON	Retirement	August 15, 2005	74
17.	Arvada Meridian <sup>(1)</sup>	Arvada, CO	Retirement	August 19, 2005	125
18.	Boulder Meridian <sup>(1)</sup>	Boulder, CO	Retirement	August 19, 2005	96
19.	Englewood Meridian <sup>(1)</sup>	Englewood, CO	Retirement	August 19, 2005	266
20.	Lakewood Meridian <sup>(1)</sup>	Lakewood, CO	Retirement	August 19, 2005	172
21.	Temple Meridian <sup>(1)</sup>	Temple, TX	Retirement	August 19, 2005	231
22.	Westland Meridian <sup>(1)</sup>	Lakewood, CO	Retirement	August 19, 2005	153
23.	Regency Retirement Residence	Mississauga, ON	Retirement	September 14, 2005	80
24.	Pocasset Bay Manor <sup>(1)</sup>	Providence, RI	Retirement	October 1, 2005	169
25.	Park at Trowbridge <sup>(1)</sup>	Southfield, MI	Retirement	October 1, 2005	300
26.	Eau Claire	Calgary, AB	Retirement	October 1, 2005	150
27.	Jackson Creek	Peterborough, ON	Retirement	November 1, 2005	68
28.	Ste-Marthe	Saint-Hyacinthe, QC	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 on page 58 of this MD&A).

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

Project	Location	Suites	Total Cost (\$ millions)	Debt (\$ millions)	Construction Completion	Leased Units Dec. 31, 2006
<i>2006 Projects</i>						
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 <sup>(1)</sup>	Sorel, QC	72	10.0	7.7	Q4, 2006	12
Total		174	\$ 28.1	\$ 19.1		55
<i>2005 Projects</i>						
Le Monastre Aylmer Ph IV <sup>(1)</sup>	Aylmer, QC	86	\$ 15.0	\$ 11.8	Q4, 2005	42
Residence Principale <sup>(1)</sup>	Cowansville, QC	59	7.9	6.1	Q4, 2005	22
Notre Dame de Hull <sup>(1)</sup>	Hull, QC	40	4.3	3.6	Q2, 2005	40
Gibson LTC	Toronto, ON	N/A <sup>(2)</sup>	3.0	2.4	Q3, 2005	N/A <sup>(2)</sup>
Devonshire Residence	Windsor, ON	N/A <sup>(2)</sup>	2.5	1.1	Q2, 2005	N/A <sup>(2)</sup>
Total		185	\$ 32.7	\$ 25.0		104

1. Chartwell owns a 50% interest in these properties.

2. Repositioning – no new units added.

## MEZZANINE LOANS

At 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 by Chartwell on acquisition of interests in four communities.

During 2005, Chartwell advanced mezzanine loans totalling \$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, 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, to advance certain 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 generally accepted accounting principles ("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, have 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 on page 34 of this MD&A provide a reconciliation of FFO to Net Income, as reported in 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 the Ontario Ministry of Health and Long-Term Care for LTC 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.
- 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 in 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 seven LTC 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 annual consolidated financial results of Chartwell for the years ended December 31, 2006 and 2005 and the 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.

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

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

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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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 for the year and three-month period ended December 31, 2006 as compared to the same periods of 2005 due to the higher loan balances outstanding.

#### FEES

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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 Information – Management Operations on page 47 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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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% for the year and three-month period 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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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% for 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 for the year ended December 31, 2006, as compared to the same period of the prior year.

#### GENERAL AND ADMINISTRATIVE EXPENSES

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

General and Administrative Expenses increased 65% for the year 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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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

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

Foreign Exchange Gains and Losses primarily relate to holdings of U.S.-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 U.S. properties. When these contracts do not qualify for hedge accounting, gains and losses on these contracts are recorded as 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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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.



## WRITEDOWN OF THE CARRYING VALUE OF ASSETS

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
Writedown of management contracts and customer relationships	(858)	–	(858)	(159)	–	(159)
Writedown 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 writedown 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 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 writedown of the carrying value of two properties.

## GAIN ON SALE OF ASSETS

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
Gain on sale of assets	396	103	293	–	–	–

As part of the acquisition of the remaining 50% interest in Langley Gardens and Langley Gardens at 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 these communities. As a result of this transaction, Chartwell now owns a 100% interest in the seniors housing community and its former joint venture partner now owns a 100% interest in the commercial property.

The proceeds from the sale of the commercial property amounted to approximately \$1.3 million and Chartwell recognized a \$0.3 million gain on the 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 from the sale amounted to approximately \$0.6 million and Chartwell recognized a \$0.1 million gain on this sale.

## NON-CONTROLLING INTEREST

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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

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

Net Loss for the year and three-month period 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 year and three-month periods ended December 31, 2006 and December 31, 2005.

(\$ 000s except per unit amounts)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
Net loss per financial statements	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)
<i>Add (subtract):</i>						
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)
Writedown 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 <sup>(1)</sup>	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 affected by the delays in deployments of funds raised in two offerings of Trust Units and Convertible Debentures completed in 2006. The acquisitions closed subsequent to December 31, 2006, and 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 to \$0.92 in 2006 from \$1.07 in 2005.

In addition to items discussed in the Funds from Operations section on page 32 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 in 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 the November 2006 Offering.

Chartwell'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 Chartwell'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, Chartwell 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 year and three-month periods ended December 31, 2006 and December 31, 2005.

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



The following table provides a reconciliation of Distributable Income to Net Loss for the year and three-month periods ended December 31, 2006 and December 31, 2005.

(\$ 000s except per unit amounts)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
Net Income Loss	(14,698)	(11,670)	(3,028)	(6,906)	(5,968)	(938)
<i>Add (subtract):</i>						
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 <sup>(1)</sup>	(2,036)	(1,649)	(387)	(729)	(618)	(111)
Writedown 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 <sup>(2)</sup>	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 year and three-month period ended December 31, 2006 and \$270 and \$153 for the year and three-month period 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 year and three-month period ended December 31, 2006 compared to the year and three-month period 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 year and three-month periods ended December 31, 2006 and 2005.

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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 of 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 a one-time retroactive wage increases in our Quebec portfolio and lower margins generated by the internal growth projects that 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 year and three-month periods ended December 31, 2006 and 2005, respectively.

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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 to 10.8% in 2006 from 9.3% in 2005 primarily due to higher occupancies in 2006. This increase in operating margins was partially offset by higher flow-through Health Authorities funding, which although increases 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. Operations segment for the year and three-month periods ended December 31, 2006 and 2005.

(US\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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.

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

## MANAGEMENT OPERATIONS

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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

(\$ 000s)	For the year ended		Change	For the three months ended		Change
	Dec. 31, 2006	Dec. 31, 2005		Dec. 31, 2006	Dec. 31, 2005	
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 issuance completed by Spectrum, and \$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 fees from ING largely depend 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 year and three-month period 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 three-months periods ended September 30, 2005, June 30, 2005 and March 31, 2005 were reduced by \$1,579, \$1,552 and \$1,631, respectively.

(\$ 000s, except per unit amounts)	Three Months Ended Dec. 31, 2006	Three Months Ended Sept. 30, 2006	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006	Three Months Ended Dec. 31, 2005	Three Months Ended Sept. 30, 2005	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(restated) (unaudited)	(restated) (unaudited)	(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)
Writedown 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 <sup>(1)</sup>	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 <sup>(1)</sup>	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 past seven quarters in order to provide the additional infrastructure required to support Chartwell's growth, and increasing professional fees related to regulatory compliance including the requirements of Bill 198.

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

## Financial Position

(\$ 000s)	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:

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 semi-annually 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:

(\$ 000s)	
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:

(\$ 000s)	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 that 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 LTC Communities, a 50% interest in another LTC Community, and management contracts for six additional LTC 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 LTC 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 LTC Communities. (Refer to the Outlook section on page 58 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 (US\$290.5 million). Chartwell's 50% share of the purchase price amounts to approximately \$169.3 million (US\$145.3 million).

Chartwell also committed to acquire a 49% leased interest in 25 communities for a purchase price of \$32.6 million (US\$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 instalments commencing in the year ended December 31, 2005 and conditional upon the property achieving certain operating targets. The first \$1.0 million instalment 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 pre-determined income targets over a three-year period.
  - The vendors of two properties are entitled to receive an additional \$7.0 million (US\$6.0 million), payable as to 50% by Chartwell and 50% by Chartwell'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 (US\$1.9 million).
  - \$0.9 million consideration on the acquisition of the Chateau Cornwall property from Spectrum that 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 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 closing.
  - \$5.25 million related to the acquisition of one property in 2006, payable on the first anniversary of 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 eight co-owned properties. These properties are proportionately consolidated in Chartwell's financial statements and, therefore, Chartwell's 50% share of the properties' debt is reflected in the financial statements. 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 owns 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 or 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:

(\$ 000s)	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 year and three-month periods ended December 31, 2006 and 2005:

(\$ 000s)	Year ended		Three months ended	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
<i>Cash provided by (used in):</i>				
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)
<i>Increase (decrease) in cash and cash equivalents</i>	<b>111,094</b>	(14,550)	<b>113,177</b>	(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 earned mezzanine loan interest of approximately \$5.1 million from Spectrum. During the year ended December 31, 2006, Chartwell 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 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 seniors 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 of 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 Saint-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.

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 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 (US\$290.5 million). Chartwell's 50% share of this acquisition amounted to \$169.3 million (US\$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 also acquired a 49% interest in 25 leased properties for an aggregate purchase price of \$32.3 million (US\$28.0 million).

Subsequent to 2006, Chartwell 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. For the year ended December 31, 2006, we acquired interests in 37 seniors housing communities for a total purchase price of \$614.6 million. Subsequent to 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 arose 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 currently four new internal growth projects 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.
- A 131-suite addition to Residence Ste-Marthe in Saint-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 the spring of 2008.

In addition, we identified further opportunities to add more than 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 11 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 more than 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 more than 9,000 suites in more than 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 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*, whose standards are applicable to Chartwell 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 is finalizing its assessment of the impact of these new standards in 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 on page 61 of this MD&A.

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

### Controls and Procedures

Chartwell is committed to maintaining effective disclosure control procedures and internal controls over financial reporting ("internal controls"). Over the past two years, we have 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 results 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 are summarized as follows:

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

As part of management's assessment of the design of its internal controls over financial reporting, Chartwell requested a Section 5970 report from one of its service organizations that provide application hosting and maintenance services. This service provider has reported weaknesses in its 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 the year ending December 31, 2006.

##### *Segregation of duty issues at our co-owned management company in the United States*

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

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

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

Based on our evaluation of the internal controls at our co-owned Quebec 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 that our consolidated financial statements are prepared accurately and completely and that 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 are reasonably likely to materially affect our internal controls over financial reporting.



## Risks and Uncertainties

### A. BUSINESS RISKS

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

ever, 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 were 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 compete with Chartwell in seeking residents. The existence of competing developers, managers and owners and competition for Chartwell's residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Community suites in the regions in which Chartwell owns Retirement Homes may have an impact on the demand for suites in Retirement Homes. 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 that 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 that 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 the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available at 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 it believes would involve material expenditure by the Trust.

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

#### K. LIABILITY AND INSURANCE

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

#### L. PERSONNEL COSTS

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

#### M. LABOUR RELATIONS

Chartwell, directly and indirectly, employs or supervises approximately more than 7,100 personnel, 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 that 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.

## Management's Responsibility for Financial Statements

### *To the Unitholders of Chartwell*

#### *Seniors Housing Real Estate Investment Trust*

The accompanying consolidated financial statements of Chartwell Seniors Housing Real Estate Investment Trust and the information included in this Annual Report have been prepared by management, which is responsible for their consistency, integrity and objectivity. Management is also responsible for ensuring that the consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in Canada. To fulfill these responsibilities, management maintains appropriate systems of internal control, policies and procedures to ensure its reporting practices and accounting and administrative procedures are of high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements in accordance with generally accepted auditing standards in Canada, to enable the expression of their opinion on the consolidated financial statements to the Unitholders. Their report, as auditors, is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and engaging the independent auditors. The Board of Trustees carries out this responsibility through its Audit Committee, which meets regularly with management and the independent auditors. The Audit Committee is composed of three members who are independent of management. The consolidated financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The independent auditors have direct and full access to the Audit Committee and Board of Trustees.



Stephen Suske  
VICE CHAIR AND CO-CEO



Vlad Volodarski  
CHIEF FINANCIAL OFFICER

*March 7, 2007*

## Auditors' Report

### *To the Unitholders of Chartwell*

#### *Seniors Housing Real Estate Investment Trust*

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") as at December 31, 2006 and 2005 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Chartwell REIT management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell REIT as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS,  
LICENSED PUBLIC ACCOUNTANTS  
Toronto, Canada

*March 7, 2007, except as to note 24, which  
is as of April 13, 2007.*



# Consolidated Balance Sheets

(In thousands of Canadian dollars)

December 31	2006	2005
<b>ASSETS</b>		
Properties (note 3)	\$ 1,510,209	\$ 957,244
Mezzanine loans receivable (note 4)	101,290	77,436
Management contracts, resident contracts and customer relationships (note 5)	78,903	64,208
Cash and cash equivalents	125,939	14,845
Other assets (note 6)	112,266	43,355
Licenses	16,760	11,935
Goodwill (note 7)	32,383	22,621
	<b>\$ 1,977,750</b>	<b>\$ 1,191,644</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<i>Liabilities:</i>		
Mortgages payable (note 8)	\$ 987,046	\$ 613,654
Convertible debentures (note 9)	120,115	–
Loans payable (note 10)	2,303	32,024
Accounts payable and other liabilities (note 11)	98,995	43,252
Distributions payable	7,335	4,981
	<b>1,215,794</b>	<b>693,911</b>
Non-controlling interest (note 12)	<b>54,453</b>	<b>52,448</b>
Unitholders' equity	<b>707,503</b>	<b>445,285</b>
Commitments and contingencies (notes 18 and 19)		
Guarantees (note 23)		
Subsequent events (notes 15, 16(a) and 24)		
	<b>\$ 1,977,750</b>	<b>\$ 1,191,644</b>

See accompanying notes to consolidated financial statements.

Approved by the Trustees:



Charles Moses  
TRUSTEE



Sidney Robinson  
TRUSTEE

# Consolidated Statements of Operations

(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31	2006	2005
<i>Revenue:</i>		
Resident	\$ 321,016	\$ 203,345
Mezzanine loan interest (notes 4 and 16(a) and (b))	10,361	7,859
Fees (note 16(a), (b) and (c))	12,487	9,148
Bank interest and other	6,711	4,275
	350,575	224,627
<i>Expenses:</i>		
Direct operating	226,066	143,220
General, administrative and trust	16,818	10,181
	242,884	153,401
	107,691	71,226
Interest expense	47,043	27,446
Foreign exchange loss and losses on derivative financial instruments	126	1,759
	47,169	29,205
	60,522	42,021
Depreciation of properties	33,095	21,314
Amortization of management contracts, resident contracts and customer relationships	42,915	29,618
Writedown in carrying value of assets (notes 3 and 5)	858	4,253
	76,868	55,185
Loss before the undernoted	(16,346)	(13,164)
Gain on sale of assets (note 3)	396	103
Non-controlling interest (note 12)	1,252	1,391
Loss for the year	\$ (14,698)	\$ (11,670)
<i>Loss per unit:</i>		
Basic and diluted (note 14)	\$ (0.248)	\$ (0.286)

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Unitholders' Equity

(In thousands of Canadian dollars)

Years ended December 31, 2006 and 2005

	Units issued, net	LTIP units under subscription	LTIP instalment loan receivable	Losses
	(note 13)			
Unitholders' equity, January 1, 2005	\$ 297,475	\$ 9,176	\$ (7,671)	\$ (6,951)
Loss for the year	—	—	—	(11,670)
Distributions to Unitholders	—	—	—	—
Issuance of Trust Units pursuant to public offering	245,353	—	—	—
Issuance of Trust Units under the Distribution Reinvestment Program	1,664	—	—	—
Trust Units issued on exchange of Class B Units of Chartwell Master LP	7,915	—	—	—
Trust Units issued under the Long-Term Incentive Program	—	10,149	(9,715)	—
Deposits received under the Long-Term Incentive Program	—	—	194	—
Disposition of Long-Term Incentive Program Units under Subscription (note 15)	187	(187)	172	—
Issue costs	(12,814)	—	—	—
Interest on instalment loan receivable	—	—	(386)	—
Distributions applied against instalment loan receivable	—	—	1,015	—
Cumulative translation account	—	—	—	—
Unitholders' equity, December 31, 2005	539,780	19,138	(16,391)	(18,621)
Loss for the year	—	—	—	(14,698)
Distributions to Unitholders	—	—	—	—
Issuance of Trust Units pursuant to public and private offerings	342,509	—	—	—
Issuance of 6.0% Convertible Debentures	—	—	—	—
Issuance of Trust Units under the Distribution Reinvestment Program	2,476	—	—	—
Trust Units issued on exchange of Class B Units of Chartwell Master LP	2,233	—	—	—
Trust Units issued under the Long-Term Incentive Program	—	9,415	(9,039)	—
Deposits received under the Long-Term Incentive Program	—	—	220	—
Disposition of Long-Term Incentive Program Units under Subscription (note 15)	867	(886)	818	—
Issue costs	(13,700)	—	—	—
Interest on instalment loan receivable	—	—	(799)	—
Distributions applied against instalment loan receivable	—	—	1,848	—
Cumulative translation account	—	—	—	—
Unitholders' equity, December 31, 2006	\$ 874,165	\$ 27,667	\$ (23,343)	\$ (33,319)

See accompanying notes to consolidated financial statements.

Cumulative translation account	Distributions	Convertible debentures	Total
\$ —	\$ (32,734)	\$ —	\$ 259,295
—	—	—	(11,670)
—	(44,856)	—	(44,856)
—	—	—	245,353
—	—	—	1,664
—	—	—	7,915
—	—	—	434
—	—	—	194
—	—	—	172
—	—	—	(12,814)
—	—	—	(386)
—	—	—	1,015
(1,031)	—	—	(1,031)
(1,031)	(77,590)	—	445,285
—	—	—	(14,698)
—	(65,378)	—	(65,378)
—	—	—	342,509
—	—	4,954	4,954
—	—	—	2,476
—	—	—	2,233
—	—	—	376
—	—	—	220
—	—	—	799
—	—	(240)	(13,940)
—	—	—	(799)
—	—	—	1,848
1,618	—	—	1,618
\$ 587	\$ (142,968)	\$ 4,714	\$ 707,503

# Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31	2006	2005
<i>Cash provided by (used in):</i>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	\$ (14,698)	\$ (11,670)
<i>Items not affecting cash:</i>		
Depreciation and amortization	76,010	50,932
Writedown in carrying value of assets	858	4,253
Gain on sale of assets	(396)	(103)
Amortization of below-market resident contracts	(2,039)	(1,675)
Option benefit granted under the Long-Term Incentive Plan	376	434
Income from long-term investments	(22)	(9)
Unrealized loss (gain) on derivative financial instruments and foreign exchange gain (loss) on U.S.-dollar-denominated balances	(599)	325
Non-controlling interest	(1,252)	(1,391)
	58,238	41,096
Amortization of deferred financing expenses	3,194	1,956
Amortization of debt discounts	420	223
Change in non-cash operating items	2,326	14,062
	64,178	57,337
<b>FINANCING ACTIVITIES</b>		
Proceeds from mortgage financing	336,925	204,148
Mortgage principal repayments	(68,165)	(70,590)
Proceeds from loans payable	40	47,084
Repayment of loans payable	(29,450)	(58,902)
6.0% Convertible Debentures issued, net of issue costs	120,313	–
Deferred financing costs	(8,091)	(2,755)
Trust Units issued	342,509	245,353
Trust Unit issue costs	(13,700)	(12,814)
Distributions paid	(66,632)	(45,182)
Distributions paid to non-controlling interest Unitholders	(5,795)	(5,724)
Deposits received under Long-Term Incentive Plan and repayment of instalment loan receivable	1,038	366
	608,992	300,984
<b>INVESTING ACTIVITIES</b>		
Acquisition of assets, net of debt assumed and Units issued (note 2)	(471,163)	(273,726)
Payment of deferred consideration on acquisitions of properties	(2,871)	–
Additions to properties	(34,499)	(27,999)
Proceeds on sale of assets	1,907	1,748
Mezzanine loans receivable	(30,119)	(41,621)
Distributions on long-term investments	1,731	–
Restricted cash and deposits in escrow	(32,009)	(2,189)
Capital funding receivable	344	219
	(566,679)	(343,568)
Foreign exchange gain (loss) on U.S.-dollar-denominated cash	4,603	(203)
Increase in cash and cash equivalents	111,094	14,550
Cash and cash equivalents, beginning of year	14,845	295
Cash and cash equivalents, end of year	\$ 125,939	\$ 14,845

Supplemental cash flow information (note 20)

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2006 and 2005

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT" or "REIT") is an open-ended, unincorporated investment trust governed by the laws of the Province of Ontario and was created pursuant to the Declaration of Trust dated July 7, 2003, as amended, when one REIT Unit was issued for cash. Chartwell REIT began operations on November 14, 2003 for the purpose of owning, operating and managing retirement homes and long-term care facilities in Canada and the United States.

Chartwell REIT owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors.

The Canadian assets of Chartwell REIT are held by Master LP, which carries out the business of the REIT. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third-party lenders, including mortgages.

The United States assets of Chartwell REIT are also owned indirectly by Master LP through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

The Trust indenture for CSH Trust requires that it distribute amounts sufficient to ensure that it will not be liable to pay income taxes in any given year. The Trustees of the REIT are required to make cash distributions to all REIT Unitholders in accordance with the Declaration of Trust, as amended, equal to, on an annual basis, the greater of 80% of the distributable income and its taxable income (note 21).

## 1. Significant accounting policies

### A. BASIS OF PRESENTATION:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the accounts of Chartwell REIT and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All inter-company transactions have been eliminated.

### B. BUSINESS COMBINATIONS:

Upon the acquisition of properties, Chartwell REIT allocates the purchase price to the fair value of assets and liabilities, including land, buildings, furniture, fixtures and equipment and intangibles, such as licenses, the value of above- and below-market resident contracts, in-place resident contracts and the value of relationships.

### C. PROPERTIES:

Properties include land, buildings, furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss on an income property is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Land held for development included in properties, is carried at the lower of cost and estimated net realizable value. The cost of land includes pre-development expense, interest, realty taxes and other directly related expenses.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40 years
Furniture, fixtures and equipment	3 – 5 years

### D. DEFERRED EXPENSES:

Deferred expenses, which include financing fees and related costs, are amortized on a straight-line basis over the terms of the related financing. The amortization is included in interest expense in the consolidated statements of operations.

### E. GOODWILL AND OTHER INTANGIBLES:

Goodwill represents the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually by comparing the carrying value of a reporting unit with its fair value.

Intangible assets are recorded at cost and consist of third-party management contracts, above- and below-market resident contracts, customer relationships and resident contracts.

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

The values of above- and below-market resident contracts are amortized and recorded as either an increase (in the case of below-market resident contracts) or a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement homes and one year for long-term care facilities. The value associated with in-place resident contracts, which represents the avoided costs of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease-up period of the property, is similarly amortized over the expected term of the resident occupancy.

#### F. LICENSES:

Licenses for the operation of long-term care facilities, when acquired, are recorded at cost.

These licenses have an indefinite life and are not amortized, but tested for impairment at least annually by comparing their carrying amounts with their fair values.

#### G. LONG-TERM INVESTMENTS:

Long-term investments represent investments subject to significant influence and are accounted for under the equity method.

#### H. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates net realizable value.

#### I. REVENUE:

*i.* Resident revenue is recognized when services are provided. The provincial governments regulate and subsidize a significant portion of fees charged to residents of long-term care facilities.

*ii.* Fee revenue from operations management and asset management services is recognized when services are provided.

*iii.* Fee revenue from development services is recorded on a project-specific basis using the percentage-of-completion method based upon the level of effort expended to achieve predetermined project milestones. No development fee revenue is recognized prior to completion of submissions to the municipality for a building permit (note 1(r)), at which point 65% of the estimated fee is recognized. The remaining portion of the fee revenue is recognized on a straight-line basis over the anticipated period of construction.

*iv.* Fee revenue from financing and due diligence project management is recognized upon completion of the contracted services.

*v.* Chartwell REIT earns revenue from contracts which include multiple deliverables. Under the Development Agreement (note 4(a)) with Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management (note 4(a)), the REIT earns interest from mezzanine loans as well as development fees, financing fees and operations management fees. These deliverables are considered to be separable into individual units of accounting and are recorded as revenue in accordance with the policies referred to above.

Under the terms of various agreements with Le Groupe Melior ("Melior") and others, Chartwell REIT earns interest from mezzanine loans as well as mezzanine placement fees, structuring fees, development fees and service fees. Such agreements are evaluated on a case-by-case basis, and where related services are separable into individual units of accounting, revenue is recorded in accordance with the policies referred to above. Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell REIT's lending activities and are recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are deferred and expensed over the same period.

**J. LONG-TERM INCENTIVE PLAN:**

Chartwell REIT accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation cost is recognized, over the vesting period, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the calculation of diluted loss per Unit.

**K. EMPLOYEE FUTURE BENEFITS:**

Chartwell REIT provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

Employees belonging to the Hospital Employees Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. Chartwell REIT accrues its obligations for these post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in operations in the current year.

**L. INCOME TAXES:**

Chartwell REIT is a Canadian unincorporated open-ended investment trust created by the Declaration of Trust, dated July 7, 2003, as amended. Chartwell REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, Chartwell REIT intends to make distributions that are not less than the amount necessary to ensure that Chartwell REIT is not liable to pay Canadian income taxes. Therefore, no provision for income taxes is required on income earned by Chartwell REIT, its subsidiary Trusts and flow-through entities (note 21).

Chartwell REIT's corporate subsidiaries are subject to income taxes on their taxable income. Where applicable to subsidiaries of Chartwell REIT, income taxes are calculated using the asset and liability method of tax allocation accounting. Under the asset and liability method, income tax assets and liabilities are recorded to recognize future tax inflows and outflows arising

from the settlement or recovery of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits of tax losses and deductions that cannot be identified with particular assets or liabilities, provided these benefits are more likely than not to be realized. Future income tax assets and liabilities and their related impact upon future income tax expense, as applicable, are determined based on tax laws and rates that are anticipated to apply in the period of realization.

**M. FOREIGN CURRENCY:**

Financial statements of Chartwell REIT's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell REIT's self-sustaining foreign operations are deferred and included in the cumulative translation account. When there is a reduction in Chartwell REIT's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation account is included in the determination of loss for the year.

**N. DERIVATIVE FINANCIAL INSTRUMENTS:**

*i. Interest rate derivatives:* Chartwell REIT enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell REIT may designate its interest rate swap agreements as hedges of the underlying debt. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or have ceased to be effective prior to maturity, are deferred on the balance sheet and recognized in loss for the year in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in loss for the year.

*ii. Foreign exchange derivatives:* Chartwell REIT enters into option contracts in order to reduce the impact of foreign currency fluctuations on proposed investments in foreign assets that are not designated as hedges for accounting purposes. The realized losses associated with these contracts are recognized in net income.

Chartwell REIT enters into option contracts in order to reduce the impact of foreign currency fluctuations on cash flows from its foreign self-sustaining operations that do not qualify as hedges for accounting purposes. Unrealized and realized gains and losses associated with these contracts are recognized in net income.

#### O. CONVERTIBLE DEBENTURES:

Chartwell REIT accounts for Convertible Debentures by valuing the holders' option to convert to units and including such value as equity. The remaining value of the Convertible Debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the Convertible Debentures such that, at maturity, the debt component is equal to the face value of the then outstanding Convertible Debentures.

#### P. EMPLOYEE HEALTH BENEFITS:

Chartwell REIT self-insures the cost of its employee health plan. Accruals for self-insured liabilities include estimates of the costs of both reported claims and claims incurred but not reported and is based on estimates of loss based on assumptions made by management including consideration of actuarial projections. Chartwell REIT's self-insurance program is administered by an independent third party.

#### Q. MEASUREMENT UNCERTAINTY:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to Chartwell REIT's lending activities is to be recognized, the fair

values of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities, the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts of properties, as well as the fair value of goodwill, Chartwell REIT relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By their nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

#### R. NEW ACCOUNTING POLICIES AND CHANGES

##### IN ACCOUNTING POLICIES:

##### *i. Revenue from development management activities:*

Effective December 31, 2005, Chartwell REIT changed its accounting policy for recognition of fee revenue from development services. Fee revenue is recognized on a project-specific basis using the percentage of completion method based upon the level of effort expected to achieve predetermined project milestones. Under the new policy, no fee revenue is recognized prior to completion of submissions to the municipality for a building permit. Previously, Chartwell REIT recognized fee revenue from development services upon obtaining relevant permits or commencement of construction activities.

Chartwell REIT adopted this change in accounting policy on a retroactive basis. As a result, the net loss was reduced by \$601 (\$0.015 per Unit) for the year ended December 31, 2005.

*ii. Asset retirement obligations:* Chartwell REIT has adopted the Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee ("EIC") Abstract 159, "Conditional Asset Retirement Obligations" ("EIC-159"). Under EIC-159, a liability should be recognized if the entity has sufficient information to reasonably estimate the fair value of the asset retirement obligation. Chartwell REIT has determined that it has a conditional asset retirement obligation relating to the removal of asbestos in many of its properties. Chartwell REIT has not recorded a liability related to the removal of asbestos because neither the timing nor the cost of such removal can be reasonably estimated at this time.

The cost to remove any asbestos would vary significantly depending on the extent of renovation and the location of the asbestos, among other factors. The timing of asbestos removal is indeterminable as it is dependant on plans for the nature of future renovations, or on the inadvertent disturbance of asbestos, which cannot be foreseen.

#### S. VARIABLE INTEREST ENTITIES:

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities" ("VIEs"). AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG-15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG-15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or entitle it to receive a majority of the VIE's expected residual returns or both. AcG-15 is effective for all annual and interim periods, beginning on or after November 1, 2004, and was adopted by Chartwell REIT effective January 1, 2005.

i. At December 31, 2006, Chartwell REIT holds variable interests in 18 (2005 – 10) VIEs. Chartwell REIT provides development services, mezzanine loans, structuring services and consulting services to these entities. These variable interest entities are expected to incur development costs of approximately \$419,187 (2005 – \$272,403).

Although these entities were identified as VIEs, it was determined that Chartwell REIT is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

As of December 31, 2006, Chartwell REIT had mezzanine loans receivable of \$62,708 (2005 – \$31,859) and deferred revenue of \$6,289 (2005 – \$4,592) from these entities. During 2006, Chartwell REIT earned \$2,236 (2005 – \$1,463) in fees and \$5,316 (2005 – \$2,482) in interest from these entities.

ii. At December 31, 2006, Chartwell REIT, through a holding company, holds variable interests in seven VIEs. These entities are structured to lease the respective facilities from Chartwell REIT and an entity controlled by Melior. At December 31, 2006, Chartwell REIT recognizes its proportionate direct interest in these facilities that have a cost of \$61,140 (2005 – \$52,962) and accumulated amortization of \$3,782 (2005 – \$1,621). Under the terms of the operating lease, Chartwell REIT and an entity controlled by Melior will receive the net revenue of the facilities less \$1 per facility.

Chartwell REIT is not considered to be the primary beneficiary and is required to account for its interest in these entities using the equity method of accounting.

iii. At December 31, 2006, Chartwell REIT, through its acquisition of CPAC (Care) Holdings Inc., holds a variable interest in one variable interest entity. This entity was created to construct a condominium development project in Langley, British Columbia and is jointly owned by Chartwell REIT and a third party. At December 31, 2006, this investment is accounted for using the equity method of accounting with a cost of \$978 (2005 – \$2,654).

#### T. IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS:

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 provide 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.



## 2. Acquisitions

The following table summarizes the acquired net assets at fair value:

	2006	2005
<b>ASSETS</b>		
Properties	\$ 534,204	\$ 358,846
Management contracts, resident contracts and customer relationships	57,334	39,857
Capital funding receivable	4,184	6,625
Land held for development	7,757	9,299
Licenses	4,825	3,805
Goodwill	9,613	11,907
Other assets	-	4,872
	<b>617,917</b>	<b>435,211</b>
<b>LIABILITIES</b>		
Mortgages and loans payable	98,828	107,890
Below-market resident contracts	3,364	-
Working capital	-	4,752
	<b>102,192</b>	<b>112,642</b>
Net assets acquired	\$ 515,725	\$ 322,569
<i>Settled by:</i>		
Issuance of Class B Units of Chartwell Master LP (note 12)	\$ 11,091	\$ 27,204
Issuance of non-voting Series A preferred interests of CSH Master Care LLC (note 10)	-	2,147
Deferred consideration on acquisition of properties (note 11)	27,206	-
Discharge of mezzanine loans receivable (note 4)	6,265	19,492
Cash	471,163	273,726
	<b>\$ 515,725</b>	<b>\$ 322,569</b>

The acquisitions have been recorded by the purchase method, with the results of operations included in these consolidated financial statements from the date of acquisition.

During the year ended December 31, 2006, Chartwell REIT completed the acquisitions of 22 seniors housing facilities and a 50% interest in 15 other facilities for total net consideration of \$515,725. Included in these acquisitions are the following:

### A. ACQUISITIONS IN THE UNITED STATES OF AMERICA:

In 2006, Chartwell REIT acquired a 50% interest in 13 facilities and a 100% interest in one other facility in the United States for a total purchase price of \$209,483.

### B. OTHER ACQUISITIONS:

Included in 2006 acquisitions are four facilities acquired from Spectrum and its joint venture partner for a total purchase price of \$58,436.

During the year ended December 31, 2005, Chartwell REIT completed the acquisitions of 18 seniors housing facilities and a 50% interest in 10 other facilities and a condominium development project for total consideration of \$322,569. Included in these acquisitions were the following:

### C. ACQUISITION OF CPAC (CARE) HOLDINGS INC. ("CPAC"):

On July 11, 2005, Chartwell REIT acquired all of the issued and outstanding shares and options of CPAC for consideration of \$39,423 plus acquisition costs and \$5,375 for the redemption of existing convertible debentures.

Chartwell REIT acquired a direct interest in CPAC's seven properties (including two projects under development) and two management contracts. It disposed of one seniors housing facility and one property under development to Spectrum at Chartwell REIT's cost, for \$580 in cash and the provision of \$3,286 in mezzanine loans receivable, and the assumption of \$3,901 of debt. The net acquisition transaction has been recorded in these financial statements.

#### D. ACQUISITIONS IN THE UNITED STATES OF AMERICA:

On August 19, 2005, Chartwell REIT acquired a 50% interest in six properties in the United States. The purchase price of \$139,154 (US\$116,000) plus closing costs was satisfied in cash.

Effective October 1, 2005, Chartwell REIT acquired a 50% interest in two properties in the United States. The purchase price of \$25,650 (US\$22,000) plus closing costs was satisfied by assumption of \$13,291 (US\$11,400) in debt, issuance of 144,405 non-voting preferred Series A interests

("Series A Interests") in CSH Master Care LLC valued at \$2,147 (US\$1,850) (note 10(b)) and the remaining balance in cash. These facilities were purchased from entities in which Chartwell REIT's joint venture partners in other projects held a minority interest.

In addition, Chartwell REIT acquired a 50% interest in Horizon Bay Chartwell LLC for a purchase price of \$3,719 (US\$3,100). As at December 31, 2005, this entity manages eight facilities in which Chartwell REIT holds a 50% interest.

#### E. OTHER ACQUISITIONS:

Included in 2005 acquisitions are six facilities acquired from Spectrum and its joint venture partner for a purchase price of \$71,984.

Chartwell REIT is in the process of completing the valuation of the net assets acquired and, based on this valuation, the purchase price allocation for accounting purposes may be adjusted in future years.

### 3. Properties

			2006			2005		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value		
Land	\$ 162,465	\$ -	\$ 162,465	\$ 107,548	\$ -	\$ 107,548		
Buildings	1,344,944	52,575	1,292,369	841,831	26,468	815,363		
Furniture, fixtures and equipment	53,143	15,917	37,226	32,513	7,877	24,636		
	1,560,552	68,492	1,492,060	981,892	34,345	947,547		
Land held for development	18,149	-	18,149	9,697	-	9,697		
	\$ 1,578,701	\$ 68,492	\$ 1,510,209	\$ 991,589	\$ 34,345	\$ 957,244		

At December 31, 2006, building costs included \$3,222 (2005 - \$2,883) related to the development of additional units at existing facilities.

During 2006, Chartwell REIT disposed of its 50% interest in the commercial section of a property and acquired the remaining 50% interest in the same property from its joint venture partner. A gain of \$296 was recognized on sale proceeds of \$1,280.

During 2006, Chartwell REIT disposed of land held for development with a carrying value of \$527. This land was sold at an appraised value to an entity partially owned by Spectrum and Melior. A gain of \$100 was recognized on this sale.

During 2005, Chartwell REIT disposed of land held for development with carrying costs of \$1,091. This land was sold to an entity partially owned by Spectrum and Melior. Closing costs amounted to \$39 and no gain or loss was recognized on this sale.

During 2005, Chartwell REIT recorded a \$4,253 impairment loss in respect of two properties. These two properties had been experiencing negative or marginal returns since acquisition and earned negative cash flows after debt servicing. The fair values have been determined using an income approach based on the overall capitalization rate method. Both assets are reported in the retirement operations segment.

During 2005, Chartwell REIT disposed of one property with a carrying value of \$415. The property was sold to a third party and a gain of \$103 was recognized on this sale.

#### 4. Mezzanine loans receivable

	2006	2005
Spectrum	\$ 45,277	\$ 38,423
Melior	42,182	31,859
Others	13,831	7,154
	<b>\$ 101,290</b>	<b>\$ 77,436</b>

##### A. SPECTRUM:

In addition to providing development services, operations management services and financing services in relation to arranging construction loans, in accordance with the terms of a development agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. At December 31, 2006, mezzanine loans due from Spectrum amounted to \$45,277 (2005 – \$38,423). In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and the annualized Chartwell REIT cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and are payable monthly. The loans outstanding as at December 31, 2006 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 35 (2005 – 29) seniors housing development properties.

Under the terms of the Development Agreement, Chartwell REIT has the first right to purchase Spectrum's interest in each development property provided that Spectrum offer Chartwell REIT the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell REIT elects to purchase a development property, Chartwell REIT will acquire the property at an amount equal to 95%, 92.5% or 90% of the appraised fair market value, depending upon the amount of

mezzanine financing provided for the development property, or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

Chartwell REIT has the first option to provide mezzanine financing to Spectrum for future development properties under the terms and conditions specified in the Development Agreement.

Effective December 24, 2004, the Development Agreement was amended to provide Spectrum with a right to terminate the agreement upon providing six months' notice. Under such circumstances, certain rights of Chartwell REIT in respect of existing mezzanine loans and options on related projects will continue.

##### B. MELIOR AND OTHER JOINT VENTURE PARTNERS:

In addition to providing development services, structuring services, operations management services and financing services in relation to arranging construction loans, Chartwell REIT has advanced 25 (2005 – 17) mezzanine loans totalling \$56,013 (2005 – \$39,013) to six (2005 – five) of Spectrum's joint venture partners (the "Borrowers"). Included in the above are mezzanine loans totalling \$42,182 at December 31, 2006 (2005 – \$31,859) advanced to the entities controlled by Melior. These loans bear interest at rates ranging from 10% to 14% per annum payable monthly and are secured by second charges or pledges of the Borrowers' interests over 23 (2005 – 15) 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 on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development Agreement with Spectrum and loan agreements with the Borrowers. No principal is due prior to maturity of each loan.

Chartwell REIT has the first right to purchase the Borrowers' interests in these projects at fair market value upon properties reaching a stabilized occupancy.

In addition, the Borrowers of 13 (2005 – nine) of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

## 5. Management contracts, resident contracts and customer relationships

2006			2005			
Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	
Management contracts	\$ 6,277	\$ 2,714	\$ 3,563	\$ 8,563	\$ 2,308	\$ 6,255
Resident contracts	150,668	76,642	74,026	99,234	43,732	55,502
Customer relationships	3,497	2,183	1,314	4,279	1,828	2,451
	\$ 160,442	\$ 81,539	\$ 78,903	\$ 112,076	\$ 47,868	\$ 64,208

Management contracts and customer relationships represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors' residences owned by third parties. Resident contracts represent in-place resident contracts valued at acquisition.

During the year ended December 31, 2006, \$115 (2005 – \$252) and \$34 (2005 – \$162) of management contracts and customer relationships, respectively, were transferred to goodwill following the acquisition of the related seniors housing facilities by Chartwell REIT.

During the year ended December 31, 2006, the termination of seven management contracts resulted in a writedown of \$539 and \$319 in the carrying value of management contracts and customer relationships, respectively.

At December 31, 2005, cost and accumulated amortization of resident contracts were reduced by \$4,027 for fully amortized resident contracts.

## 6. Other assets

	2006	2005
Accounts receivable	\$ 16,641	\$ 7,405
Deferred financing costs, net of accumulated amortization of \$7,086 (2005 – \$3,987)	16,834	7,410
Capital funding receivable (a)	13,000	9,160
Deposits on acquisitions	11,683	664
Long-term investments (b)	2,518	4,232
Due from Spectrum (note 16(a))	2,515	2,664
Prepaid expenses and deposits	8,974	7,076
Deposits in escrow (c)	34,308	2,185
Other	5,793	2,559
	<b>\$ 112,266</b>	<b>\$ 43,355</b>

a) The capital funding receivable represents the discounted cash flows receivable from the Government of Ontario over a 20-year period in respect of construction costs of two long-term care facilities.

b) Included in long-term investments is \$978 relating to Chartwell REIT's net investment in a condominium development project in Langley, British Columbia (note 1(s)(iii)).

c) Deposits in escrow include \$27,967 held in trust for acquisition of a 49% interest in 25 leased properties (note 24(b)).

## 7. Goodwill

	Retirement operations	Long-term care operations	Management operations	Total
December 31, 2004	\$ 1,556	\$ 1,825	\$ 6,919	\$ 10,300
Goodwill acquired during the year (note 2)	5,283	4,224	2,400	11,907
Management contracts and customer relationships transferred to goodwill (note 5)	–	414	–	414
December 31, 2005	6,839	6,463	9,319	22,621
Goodwill acquired during the year (note 2)	9,613	–	–	9,613
Management contracts and customer relationships transferred to goodwill (note 5)	149	–	–	149
December 31, 2006	\$ 16,601	\$ 6,463	\$ 9,319	\$ 32,383

## 8. Mortgages payable

Mortgages payable are secured by first and second charges on specific facilities and are repayable as follows for the years ending December 31:

	Regular principal payments	Principal due on maturity	Total
2007	\$ 21,283	\$ 71,604	\$ 92,887
2008	20,968	50,563	71,531
2009	18,754	103,224	121,978
2010	17,896	57,413	75,309
2011	17,120	26,808	43,928
2012	16,113	69,051	85,164
2013	14,205	58,550	72,755
2014	11,349	35,286	46,635
2015	10,710	90,911	101,621
2016	6,666	178,656	185,322
Thereafter	26,055	63,861	89,916
	\$ 181,119	\$ 805,927	\$ 987,046

	2006	2005
Mortgages at fixed rates	<b>\$908,483</b>	\$590,777
Interest rates	<b>3.50% - 10.00%</b>	3.29% - 10.00%
Weighted average rate	<b>5.38%</b>	5.22%
Mortgages at variable rates	<b>\$78,563</b>	\$22,877
Interest rates	<b>Bankers' acceptance plus 0.65% - prime plus 3.00%</b>	Prime plus 0.50% - prime plus 3.00%
Weighted average rate	<b>5.58%</b>	5.03%

Interest on mortgages payable amounted to \$44,576 (2005 – \$24,311), excluding the amortization of deferred financing costs.

## 9. Convertible debentures

Convertible Debentures	\$ 125,000
Debt component	\$ 120,115

On November 28, 2006, Chartwell REIT issued \$125,000 convertible, unsecured subordinated debentures ("6.0% Convertible Debentures") pursuant to a prospectus dated November 16, 2006 for proceeds of \$120,313, net of issue costs. The 6.0% Convertible Debentures bear interest at an annual rate of 6.0% payable semi-annually in arrears on December 1 and June 1 of each year commencing December 1, 2006. Each 6.0% Convertible Debenture is convertible into freely-tradable Trust Units of Chartwell REIT at the option of the holder at any time prior to the earlier of December 1, 2011 and the last business day immediately preceding the date specified by Chartwell REIT for redemption of the 6.0% Convertible Debentures, at a conversion price of \$15.60 per Trust Unit (the "Conversion Price"). Holders converting their 6.0% Convertible Debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date for their 6.0% Convertible Debentures up to and including the last record date set by Chartwell REIT prior to the date of conversion for determining the Unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell REIT has suspended regular distributions, then a 6.0% Convertible Debenture holder, in addition to the applicable number of Trust Units to be received on conversion,

will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

The 6.0% Convertible Debentures will not be redeemable by Chartwell REIT before December 1, 2009 except in the event of satisfaction of certain conditions after a change in control has occurred. On or after December 1, 2009 but prior to December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell REIT in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price as defined in the trust indenture relating to the debentures (the "Indenture") is not less than 125% of the Conversion Price. On or after December 1, 2010, the 6.0% Convertible Debentures may be redeemed by Chartwell REIT in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the 6.0% Convertible Debentures on redemption or at maturity through, in whole or in part, the issuance of freely-tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price as defined in the Indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 6.0% Convertible Debentures trustee to satisfy the obligations to pay interest on the 6.0% Convertible Debentures.



As Chartwell REIT's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell REIT requires a variable number of Trust Units to be issued to satisfy the obligation, the 6.0% Convertible Debentures are recorded primarily as a liability. Chartwell REIT has recorded a liability of \$120,046 and equity of \$4,954, which represents the holders' option to convert the 6.0% Convertible Debentures into Trust Units. Chartwell REIT incurred issue costs of \$4,688, of which \$240 has been recorded as a reduction of the equity component of the 6.0% Convertible Debentures. The remaining \$4,448 of issue costs will be amortized to interest expense over the term of the 6.0% Convertible Debentures.

Interest expense is recorded on the liability component of the 6.0% Convertible Debentures as a charge to income and is calculated at the effective rate of approximately 7.0%, with the difference between the coupon interest rate of 6.0% and the effective rate of 7.0% credited to the liability component of the 6.0% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 6.0% Convertible Debentures.

## 10. Loans payable

	2006	2005
Secured revolving operating facility (a)	\$ -	\$ 21,000
Secured bridge loans	-	8,450
Non-voting Series A preferred interests of CSH Master Care LLC (b)	2,013	2,324
Other loans	290	250
	<b>\$ 2,303</b>	<b>\$ 32,024</b>

a) Chartwell REIT has arranged for a \$90,000 secured revolving operating facility. At December 31, 2006, the maximum available borrowing capacity was \$75,737 based on the security provided.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on June 27, 2007. The term may be extended with the consent of the lenders for an additional 364-day period.

b) On October 1, 2005, CSH Master Care LLC, a U.S. subsidiary of Chartwell REIT, issued 144,405 Series A Interests to the vendors of two seniors housing facilities acquired in the United States at \$14.87 per Unit interest. These vendors are joint venture partners of Chartwell REIT in other projects.

Series A Interests become redeemable at the option of the holders at specific points in time over a three-year period ending September 30, 2008. The redemption price is payable in Canadian dollars and will be based on the closing price of Chartwell REIT Trust Units (note 13). Series A Interests are classified as a liability in these consolidated financial statements and are measured at their redemption value. Unrealized and realized gains and losses resulting from changes in the redemption value of Series A Interests are recorded in income. At December 31, 2006, the redemption price of Series A Interests was \$13.94 (2005 – \$16.00) per Unit interest; consequently, a gain of \$298 (2005 – loss of \$163) was recorded in the consolidated financial statements. Series A Interests receive monthly distributions equal to distributions on Chartwell REIT Trust Units. For the year ended December 31, 2006, these distributions are recorded as interest expense in the consolidated financial statements and amounted to \$154 (2005 – \$33).

## 11. Accounts payable and other liabilities

	2006	2005
Accounts payable and accrued liabilities	\$ 50,808	\$ 30,277
Below-market resident contracts, net of accumulated amortization of \$5,197 (2005 – \$3,158)	3,260	1,817
Resident deposits	4,805	3,137
Deferred consideration on acquisition of properties	29,820	2,871
Deferred revenue	10,302	5,150
	<b>\$ 98,995</b>	<b>\$ 43,252</b>

Included in deferred consideration on acquisition of properties at December 31, 2006 are the following:

A. \$520 related to the acquisition of one property in 2006, which is due between the third and seventh anniversary of the closing upon conversion of certain apartment units into seniors housing units.

B. \$1,180 related to the acquisition of one property in 2006, which is due each anniversary date starting on July 31, 2007 upon conversion of certain apartment units into seniors housing units.

C. \$20,365 representing the net present value of a \$23,500 deferred purchase consideration and \$159 of interest accretion related to the acquisition of one property in 2006, with \$5,500 of the deferred purchase price being due on the first anniversary of closing, \$4,500 on the second anniversary, \$3,500 on the third anniversary, \$2,500 on the fourth anniversary, \$2,500 on the fifth anniversary and \$5,000 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.

D. \$50 related to the acquisition of one property in 2006, payable on the first anniversary of the closing.

E. \$5,250 related to the acquisition of one property in 2006, which is due each anniversary date starting on November 9, 2007 upon conversion of certain apartment units into seniors housing suites and the implementation of seniors housing facility programs.

F. \$2,455 related to the acquisition of one property in 2003 which achieved predetermined operating targets in 2006, at which time this portion of the deferred consideration became due (note 19(d)).

## 12. Non-controlling interest

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in the consolidated financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell REIT's consent.

The details of non-controlling interest are as follows:

	2006	2005
Balance, beginning of year	\$ 52,448	\$ 40,279
Issuance of Class B Units of Master LP (note 2)	11,091	27,204
Non-controlling interest's share of loss for the year	(1,252)	(1,391)
Distributions on Class B Units of Master LP	(5,744)	(5,602)
Exchange of Class B Units of Master LP for Trust Units	(2,233)	(7,915)
Cumulative translation account	143	(127)
Balance, end of year	\$ 54,453	\$ 52,448

## 13. Unitholders' capital

Chartwell REIT is authorized to issue unlimited Trust Units. Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Chartwell REIT, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

A. 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10-day trading period ending immediately prior to the date on which the Units were surrendered for redemption; and

B. 100% of the "closing market price" on the principal market on which the Units are listed for trading on the redemption date.

The aggregate redemption price payable by Chartwell REIT in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed \$50,000 unless waived at the discretion of the REIT Trustees and will be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds \$50,000 in any given month, such excess will be satisfied by way of a distribution of assets held by Chartwell REIT.

a) The following units are issued and outstanding for accounting purposes and exclude the issuance of Trust Units under the LTIP (note 15):

	Number of voting units	Amount
Units outstanding, January 1, 2005	31,913,005	\$ 297,475
<i>March 30, 2005:</i>		
Trust Units issued pursuant to secondary public offering	6,250,000	90,313
<i>August 11, 2005:</i>		
Trust Units issued pursuant to secondary public offering	10,200,000	155,040
Trust Units issued pursuant to the Distribution Reinvestment Program	116,721	1,664
Trust Units issued in exchange for Class B Units of Master LP	722,126	7,915
Trust Units issued on disposition of Long-Term Incentive Program Units under Subscription	16,250	187
Issue costs	–	(12,814)
Units outstanding, December 31, 2005	49,218,102	539,780
<i>May 9, 2006:</i>		
Trust Units issued pursuant to secondary public offering	13,310,000	185,009
<i>November 28, 2006:</i>		
Trust Units issued pursuant to secondary public offering	3,676,475	50,000
Trust Units issued pursuant to private placement	7,150,000	97,240
<i>November 30, 2006:</i>		
Trust Units issued pursuant to exercise of over-allotment option	551,470	7,500
Trust Units issued pursuant to private placement	202,941	2,760
Trust Units issued pursuant to the Distribution Reinvestment Program	181,626	2,476
Trust Units issued on exchange of Class B Units of Master LP	223,425	2,233
Trust Units issued on disposition of Long-Term Incentive Program Units under Subscription	62,500	867
Issue costs	–	(13,700)
Units outstanding, December 31, 2006	74,576,539	\$ 874,165

b) **Distribution Reinvestment Program (“DRIP”):** Chartwell REIT has established a DRIP for its Unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

#### 14. Loss per unit calculation

	2006		2005	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the year	59,165,726	\$ (14,698)	40,869,634	\$ (11,670)
LTIP Units under subscription	1,766,962	-	1,007,836	-
	60,932,688	\$ (14,698)	41,877,470	\$ (11,670)
Loss per Unit (basic and diluted)		\$ (0.248)		\$ (0.286)

Basic per Unit information is calculated using the weighted average number of Units outstanding during the year. The calculation of per Unit information on a diluted basis considers the potential exercise of outstanding Unit options, to the extent that the exercise of the option is dilutive and the potential conversion of outstanding 6.0% Convertible Debentures, to the extent that the conversion is dilutive.

#### 15. Long-Term Incentive Plan

Chartwell REIT has established an LTIP, under which the eligible participants may subscribe to Trust Units at a purchase price equal to the weighted average trading price of the Units for five trading days preceding the date of issuance, which will be payable in cash instalments, over a term of no more than 10 years. Participants are required to pay interest at 4% and are required to apply cash distributions received by them, in respect of units issued under the LTIP, toward payments of that interest and the principal instalments. Participants may prepay any principal at their discretion. If a participant fails to pay interest and/or principal, Chartwell REIT may elect to reacquire or sell the Trust Units in satisfaction of the outstanding amounts. Chartwell REIT has no recourse to the participants' assets.

In 2005, the LTIP was amended to include vesting provisions for subsequent issuances of Trust Units under the LTIP, where Trust Units vest 1/3 in the first year of employment, 1/3 in the third year of employment and 1/3 in the fifth year of employment.

An aggregate of 3,208,945 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,149,125 were issued and 2,070,375 were outstanding at December 31, 2006.

The following table summarizes Trust Units issued under the LTIP in 2006 and 2005:

	Number of Units under subscription	Amount
Balance, January 1, 2005	860,000	\$ 9,176
June 2, 2005 – sale of Trust Units	(7,500)	(75)
October 4, 2005		
– issuance of Trust Units	631,250	9,715
December 9, 2005		
– sale of Trust Units	(3,750)	(58)
December 28, 2005		
– sale of Trust Units	(5,000)	(54)
Compensation expense	-	434
Balance, December 31, 2005	1,475,000	19,138
June 20, 2006 – sale of Trust Units	(2,500)	(25)
June 23, 2006 – sale of Trust Units	(3,750)	(58)
July 14, 2006		
– issuance of Trust Units	657,875	9,039
August 28, 2006 – sale of Trust Units	(23,750)	(366)
November 16, 2006		
– sale of Trust Units	(2,500)	(25)
December 28, 2006		
– sale of Trust Units	(30,000)	(412)
Compensation expense	-	376
Balance, December 31, 2006	2,070,375	\$ 27,667

The market value of the Trust Units at December 31, 2006 was \$13.94 per Unit (2005 – \$16.00).

The compensation cost attributable to the LTIP of \$376 (2005 – \$434) is charged against earnings with a corresponding amount included in Unitholders' equity as Units under subscription. The Unit instalment loans receivable are recognized as a deduction from Units under subscription. Distributions received under the LTIP are charged to Unitholders' equity while interest received under the LTIP is credited to distributions.

The fair value of the LTIP on the date of issuance in 2005 and 2006 was estimated using the Black-Scholes option pricing model with the following assumptions:

October 4, 2005 and subsequent issuances	
Dividend yield	7.0%
Volatility	10.0% – 12.0%
Risk-free interest rate	3.34% – 3.94%
Expected life	1 – 10 years
Average expected employee tenure	6.7 years
Imputed interest benefit	4.60%

At December 31, 2006, Chartwell REIT was committed to issue an additional 557,875 Units for eligible employees, all of which were issued subsequent to December 31, 2006.

## 16. Related party transactions

Except as disclosed elsewhere in these consolidated financial statements, the related party transactions were as follows:

### A) SPECTRUM:

	2006	2005
Mezzanine		
loan interest earned (note 4(a))	\$ 5,144	\$ 5,278
Development fees	4,523	4,006
Operations management fees	863	591
Financing fees	662	794
Other	627	–

Other assets as of December 31, 2006 include \$2,515 (2005 – \$2,664) due from Spectrum. Subsequent to December 31, 2006, \$1,226 of this balance was paid.

Included in development fees for the year ended December 31, 2006 are \$1,001 of 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 Spectrum and Chartwell REIT.

Included in other fees for the year ended December 31, 2006 are fees of \$500 charged to Spectrum for assistance in the raising of \$17,500 of equity in December 2005.

Included in distributions payable at December 31, 2006 is \$273 (2005 – \$205) due to Spectrum.

### B. MELIOR:

	2006	2005
Mezzanine loan		
interest earned (note 4(b))	\$ 4,120	\$ 2,214
Development fees earned	1,981	1,474
Fees paid for net increased economic value created (note 19(g))	(216)	–
Referral and		
due diligence fees paid (note 19(g))	(3,241)	(430)
Reimbursed expenses paid	(245)	(465)

At December 31, 2006, accounts receivable and other assets includes \$2,613 due from Melior and deferred revenue includes \$5,062 received from Melior. Subsequent to December 31, 2006, \$614 of this balance was collected.

C. Included in accounts receivable is \$34 (2005 – \$117) due from an officer of Chartwell REIT related to the previous sale of a facility to the REIT.

D. Included in mortgages payable at December 31, 2006 is a vendor take-back mortgage of \$2,270 (2005 – \$3,407) due to an officer of Chartwell REIT. In addition, one vendor take-back mortgage in the amount of \$1,486 due to an officer of the REIT was repaid during 2005. In 2006, the REIT incurred interest expense of \$189 (2005 – \$144) related to these mortgages.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 17. Segmented information

Chartwell REIT monitors and operates its retirement operations, long-term care operations, management operations and United States operations separately.

The accounting policies of each of the segments are the same as those described for Chartwell REIT. Certain general, administrative and trust expenses are managed centrally by Chartwell REIT and are not allocable to reportable operating segments. Chartwell REIT has no material intersegment revenue, transfers or expenses.

2006	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total	
Revenue	\$ 182,397	\$ 85,791	\$ 12,487	\$ 52,828	\$ 333,503	
Direct operating expenses	114,556	74,755	4,027	32,728	226,066	
Income before the undernoted	67,841	11,036	8,460	20,100	107,437	
Interest expense	30,170	4,473	-	11,628	46,271	
Income before the following	37,671	6,563	8,460	8,472	61,166	
Depreciation and amortization	51,741	5,140	2,573	16,556	76,010	
Gain on sale of assets	(396)	-	-	-	(396)	
Writedown in carrying value of assets	-	-	858	-	858	
	\$ (13,674)	\$ 1,423	\$ 5,029	\$ (8,084)	\$ (15,306)	
<i>Items not allocated to operating segments:</i>						
Mezzanine loan from interest and other income					17,072	
General, administrative and Trust expenses					(16,818)	
Interest on convertible debentures					(772)	
Foreign exchange loss and losses on derivative financial instruments					(126)	
Non-controlling interest					1,252	
Loss for the year					\$ (14,698)	
<i>Expenditures for assets by segment:</i>						
Acquisitions – properties, licenses and resident contracts	\$ 350,968	\$ 43,669	\$ -	\$ 209,483	\$ 604,120	
Capital improvements	29,277	3,305	-	1,917	34,499	
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	\$ 1,192,399	\$ 155,884	\$ 18,393	\$ 383,845	\$ 227,229	\$ 1,977,750
Total liabilities	800,451	110,791	6,813	290,404	7,335	1,215,794



## 17. Segmented information (continued)

2005	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Total	
Revenue	\$ 136,665	\$ 56,407	\$ 9,148	\$ 10,273	\$ 212,493	
Direct operating expenses	83,262	49,586	4,259	6,113	143,220	
Income before the undernoted	53,403	6,821	4,889	4,160	69,273	
Interest expense	22,145	3,129	–	2,172	27,446	
Income before the following	31,258	3,692	4,889	1,988	41,827	
Depreciation and amortization	41,891	3,358	2,001	3,682	50,932	
Gain on sale of assets	(103)	–	–	–	(103)	
Write-down in carrying value of assets	4,253	–	–	–	4,253	
	\$ (14,783)	\$ 334	\$ 2,888	\$ (1,694)	\$ (13,255)	
<i>Items not allocated to operating segments:</i>						
Mezzanine loan from interest and other income					12,134	
General, administrative and trust expenses					(10,181)	
Foreign exchange loss and losses on derivative financial instruments					(1,759)	
Non-controlling interest					1,391	
Loss for the year					\$ (11,670)	
<i>Expenditures for assets by segment:</i>						
Acquisitions – properties, licenses and resident contracts	\$ 196,393	\$ 36,090	\$ –	\$ 170,025	\$ 402,508	
Capital improvements	24,322	3,638	–	39	27,999	
	Canadian retirement operations	Canadian long-term care operations	Canadian management operations	United States operations	Other	Total
Total assets	\$ 791,023	\$ 114,709	\$ 21,320	\$ 172,311	\$ 92,281	\$1,191,644
Total liabilities	487,481	71,278	5,150	125,021	4,981	693,911

## 18. Joint venture operations

The following amounts included in the consolidated financial statements are Chartwell REIT's proportionate interest in its joint ventures:

	2006	2005
Assets	\$ 439,660	\$ 259,016
Liabilities	323,517	174,531
Revenue	59,129	19,551
Expenses, including depreciation and amortization of \$20,219 (2005 – \$6,421)	68,801	21,940
Loss for the year	(9,672)	(2,389)
<i>Cash provided by (used in):</i>		
Operating activities	\$ 21,181	\$ 15,010
Financing activities	198,626	184,316
Investing activities	(217,707)	(195,094)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$323,517. The assets of these joint ventures are available to satisfy these liabilities.

## 19. Commitments and contingencies

### A. OPERATING LEASES:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of \$126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases vary from \$931 to \$1,003 over the term of the lease.

### B. ACQUISITIONS:

As of December 31, 2006, Chartwell REIT has agreed to acquire varying interests in 13 seniors housing facilities and a 49% leased interest in 25 other facilities for a purchase price of approximately \$432,888. Such interests include the following:

*i.* Chartwell REIT 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 man-

agement contracts for an additional six long-term care communities, for a total purchase price of approximately \$231,000, including assumption of debt of approximately \$150,900.

*ii.* Chartwell REIT has also agreed to acquire five seniors housing communities in the United States for approximately \$338,520 (U.S. \$290,500). Chartwell REIT's 50% share of the purchase price amounts to approximately \$169,260 (U.S. \$145,250). This acquisition was completed subsequent to the year end (note 24).

*iii.* Chartwell REIT has also committed to acquire a 49% leased interest in 25 communities for a purchase price of \$32,628 (U.S. \$28,000). This acquisition was completed subsequent to the year end (note 24).

### C. PURCHASE OBLIGATIONS:

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of December 31, 2006, the remaining commitments under these contracts amounted to approximately \$9,476.

### D. CONTINGENT CONSIDERATION ON ACQUISITIONS:

*i.* The vendor of one property is entitled to receive an additional \$4,250 contingent upon the property achieving pre-determined operating targets, the measurement of which is to be made annually commencing on December 31, 2005. At December 31, 2006, \$2,455 of this amount has become payable.

*ii.* Spectrum is entitled to receive additional consideration of \$900 with respect to one property sold to Chartwell REIT in 2006 contingent upon the property achieving certain earnings targets within three years following the close of the acquisition.

*iii.* The purchase and sale agreement related to one property acquired commits Chartwell REIT to the payment of up to \$5,000 in respect of certain suites that are being added to the property. The first \$1,000 instalment was paid in 2005.

*iv.* The purchase and sale agreement related to two properties acquired provides the vendor with a right to receive an additional \$675 over a three-year period subject to the properties achieving certain earnings targets.

v. The vendors of two properties are entitled to receive an additional U.S. \$6,000, 50% payable by Chartwell REIT and 50% payable by Chartwell REIT's joint venture partner, contingent upon properties achieving a predetermined annualized yield on invested equity, measured quarterly. At December 31, 2006, Chartwell REIT's obligation with respect to the remaining combined consideration was \$2,280 (US\$1,957).

#### E. MEZZANINE LOANS RECEIVABLE:

As at December 31, 2006, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum, Melior and other parties in the amount of \$41,577 (2005 – \$29,426) (note 4).

#### F. LETTERS OF CREDIT:

As of December 31, 2006, Chartwell REIT was contingently liable for letters of credit in the amount of \$639 (2005 – \$1,080).

#### G. OTHER CONTRACTS:

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

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

iii. As of December 31, 2006, Chartwell REIT has entered into fixed gas contracts with a third-party gas supplier for \$762 to provide gas to its facilities.

iv. In accordance with contracts between Chartwell REIT and Melior, Chartwell REIT has committed to the following:

a) For a period of 10 years, expiring February 5, 2016, payment of a referral and due diligence fee of 2.5% of the purchase amount of properties acquired by Chartwell REIT in the Province of Quebec, whether or not such acquisition is introduced, presented or referred by Melior and 2.0% of the purchase amount of each acquisition by

Chartwell REIT of properties in Canada, excluding the Province of Quebec, which is 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 (note 16(b)).

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

#### H. LITIGATION AND CLAIMS:

In the ordinary course of business activities, Chartwell REIT may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell REIT.

## 20. Supplemental cash flow information

A. At December 31, 2006, distributions of \$7,335, including \$533 applicable to non-controlling interests (2005 – \$4,981, including \$482 applicable to non-controlling interests) remained payable to Unitholders. These amounts have been excluded from operating and financing activities in the consolidated statements of cash flows.

B. The acquisition of net assets (note 2) was partially financed through the issuance of \$11,091 (2005 – \$27,204) of Class B Units of Master LP, the issuance of nil (2005 – \$2,147) of Series A Interests in CSH Master Care LLC (note 10(b)) and the discharge of \$6,265 (2005 – \$19,492) of mezzanine loans receivable. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

C. Deferred purchase consideration on acquisition of properties of \$2,455 that remains payable as of December 31, 2006 (2005 – \$2,871) was excluded from operating and investing activities in the consolidated statements of cash flows.

D. During the year ended December 31, 2006, distributions of \$1,848 (2005 – \$1,105) and interest of \$799 (2005 – \$386) were applied against instalment loans receivable related to the LTIP. These amounts have been excluded from financing activities in the consolidated statements of cash flows.

E. During the year ended December 31, 2006, Trust Units valued at \$2,476 (2005 – \$1,664) were issued pursuant to the DRIP. This amount has been excluded from financing activities in the consolidated statements of cash flows.

F. During the year ended December 31, 2006, interest paid amounted to \$45,296 (2005 – \$27,074).

## 21. Income taxes

Chartwell REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 1(l), does not record a provision for income taxes on income earned by Chartwell REIT, its subsidiary trust or flow-through entities. 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. However, the Proposals provide that distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Proposals provided that a SIFT which was publicly-listed before November 1, 2006 (an “Existing Trust”) would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the “Safe Harbour Limits”). The REIT is currently in the process of acquiring properties (note 19(b)), which may entail the issuance of equity capital in excess of these Safe Harbour Limits.

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

In respect of assets and liabilities of Chartwell REIT, its subsidiary trust and flow-through entities, the net book value for accounting purposes of those net assets exceeds their tax basis by an amount of approximately \$145,340 (2005 – \$174,718).

Chartwell REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 37%. At December 31, 2006, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes of approximately \$1,102 (US\$946) expiring in 2025 and \$6,017 (US\$5,163) expiring in 2026, totalling \$7,119 (US\$6,109).

In 2006, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of \$3,047 (US\$2,615), against which a valuation allowance of \$3,047 (US\$2,615) has been recorded.

In 2005, the net future tax assets of these corporate subsidiaries consisted of tax and book basis differences relating to the United States operations of \$554 (US\$475), against which a valuation allowance of \$554 (US\$475) has been recorded.

## 22. Financial instruments and financial risk management

In the normal course of business, Chartwell REIT is exposed to various financial risks, including changes in interest rates, changes in foreign currency exchange rates and government regulatory controls. The following describes these financial risks and how they are managed by Chartwell REIT and the fair values of these financial instruments:

### A. FOREIGN CURRENCY EXCHANGE RISK:

At December 31, 2006, through its self-sustaining United States operations, 19% (December 31, 2005 – 14%) of the Trust's assets and 26% (2005 – 18%) of the Trust's mortgages payable were held in the United States, and for the year ended December 31, 2006, 15% (2005 – 5%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in exchange rates between Chartwell REIT's reporting currency (the Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S.-dollar-denominated financial instruments that are not a component of the self-sustaining U.S. operations.

Chartwell REIT may use derivative financial instruments to hedge its foreign currency exposures. Chartwell REIT's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the financial statements. The U.S. operations are primarily funded through United States dollar debt which serves to mitigate foreign exchange risk.

### B. INTEREST RATE RISK:

Interest rate risk arises with changes in interest costs, which affect Chartwell REIT's floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At December 31, 2006, \$78,853 (2005 – \$52,577) of Chartwell REIT's mortgages and loans payable, excluding hedged loans, bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range of from five to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of \$13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of December 31, 2006 is a loss position of \$934, which is included in accrued liabilities on the balance sheet (note 11).

### C. CREDIT AND COLLECTION RISK:

Chartwell REIT has four significant categories of receivables: mezzanine borrowers, various provincial governments, resident clients and retirement homes and long-term care facilities to which it provides management services. Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and normal credit risk from residents. Collection risk associated with these residents relates to their ability to potentially challenge certain charges. Chartwell REIT provides management and other services to the borrowers of mezzanine loans, and through such activities monitors the status of the underlying development projects securing these loans for signs of possible impairment.

### D. FAIR VALUE:

Fair value represents management's estimates of market value at a given point in time. The fair values of Chartwell REIT's financial assets and financial liabilities, except as noted, approximate their carrying values due to their short-term nature.

The fair values of mortgages payable as at December 31, 2006 were \$994,165 (2005 – \$611,539) as compared to their carrying values of \$987,046 (2005 – \$613,654).

As of December 31, 2006, the fair values of mezzanine loans receivable, capital funding receivable, loans payable and convertible debentures approximate their carrying values.

### E. RELIANCE ON GOVERNMENT SUBSIDIES:

Chartwell REIT holds licenses related to each of its long-term care facilities, which receive funding from the relevant provincial government. During the year ended December 31, 2006, the REIT received approximately \$60,176 (2005 – \$39,560) in respect of these licenses, which has been recorded in resident revenue.

### 23. Guarantees

At December 31, 2006, Chartwell REIT remains as a guarantor on the debt of two properties to a maximum amount of \$23,850. As at December 31, 2006, \$18,562 of the loans were outstanding. The guarantees are in relation to the properties that were sold to Spectrum for \$3,865. Spectrum has indemnified Chartwell REIT for these guarantees and pays an annual guarantee fee.

At December 31, 2006, Chartwell REIT remains as a guarantor of the debt of one managed property with a balance of \$3,100. The borrower has indemnified Chartwell REIT for this guarantee.

At December 31, 2006, Chartwell REIT and its joint venture partners provide joint and several guarantees of the debt of the co-owned properties. Effectively, Chartwell guarantees its partners' 50% share of this debt to a maximum amount of \$47,911, of which \$45,516 is outstanding at December 31, 2006. In the opinion of management, at December 31, 2006, the value of each of these properties exceeds the respective total amount of debt outstanding.

### 24. Subsequent events

A. Subsequent to December 31, 2006, Chartwell REIT acquired four seniors housing facilities and one long-term care facility in Canada for a purchase price of \$50,000 and \$27,720, respectively, from two different vendors and one seniors housing facility from Spectrum for consideration of \$17,575.

B. Subsequent to December 31, 2006, CSH-INGRE LLC, a joint venture between Chartwell REIT and ING Real Estate Investment Management Australia PTY Limited ("ING"), acquired five seniors housing facilities in the United States for an aggregate purchase price of approximately \$338,520 (US\$290,500). Chartwell REIT financed 100% of the equity required for this acquisition through a series of loans to the joint venture.

C. Subsequent to December 31, 2006, Chartwell REIT acquired a 49% interest in 25 leased properties for an aggregate purchase price of \$32,628 (US\$28,000).

D. Subsequent to December 31, 2006, Chartwell REIT announced its intention to acquire 24 seniors housing facilities and an interest in two leased seniors housing facilities in the United States for an aggregate purchase price of approximately \$399,000 (US\$343,700) and two seniors housing facilities in Canada from two separate vendors for an aggregate purchase price of approximately \$28,500.

E. Subsequent to December 31, 2006, Chartwell REIT advanced \$4,300 of mezzanine loans to Spectrum, Melior and Spectrum's joint venture partners.

F. On April 13, 2007 Chartwell REIT filed a final short form prospectus to sell 14,100,000 Trust Units for \$14.25 per Trust Unit and \$75,000 of 5.9% convertible unsecured subordinated debentures due May 1, 2012, for aggregate gross proceeds of \$275,925 to a syndicate of underwriters pursuant to an underwriting agreement, on a bought-deal basis.



# Corporate Information

## Trustees, Directors and Officers

### TRUSTEES AND/OR DIRECTORS

Michael D. Harris, CHAIR <sup>†</sup>  
*Corporate Director and Consultant*  
*Senior Business Advisor, Goodmans LLP*

Victor Durman <sup>‡</sup>  
*President, Wardman Financial*  
*Corporation (A Vancouver real estate*  
*investment and development company)*

Charles Moses C.A. <sup>\*</sup>  
*Private consultant and Chairman*  
*Canadian Depository for Securities Ltd.*  
*(Canada's depository for investment*  
*securities)*

Sidney P.H. Robinson <sup>\* †</sup>  
*Corporate director and Consultant*  
*(former Senior Partner of Torys LLP,*  
*a major Canadian legal firm)*

Thomas Schwartz C.A. <sup>† ‡</sup>  
*President and CEO, Canadian*  
*Apartment Properties REIT (A real*  
*estate investment trust focused on the*  
*apartment residential sector)*

André R. Kuzmicki <sup>‡</sup>  
*Executive Director, Program in Real*  
*Property, Schulich School of Business,*  
*York University*

Lise Bastarache <sup>‡ \*</sup>  
*Corporate Director*

Stephen A. Suske, MBA  
*Vice Chair and Co-CEO*

Robert Ezer, C.A.  
*President and Co-CEO*

W. Brent Binions, LL.B  
*Senior Executive Vice President*

\* Audit Committee

† Compensation, Governance and  
Nominating Committee

‡ Investment and Environmental Committee

### OFFICERS AND SENIOR MANAGEMENT

Stephen A. Suske MBA  
*Vice Chair and Co-CEO*

Robert Ezer C.A.  
*President and Co-CEO*

W. Brent Binions LL.B  
*Senior Executive Vice President*

Cam Crawford C.A.  
*Chief Operating Officer*

Vlad Volodarski C.A.  
*Chief Financial Officer*

## Unitholder Information

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### AUDITORS

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Toronto, Ontario

### LEGAL COUNSEL

Borden Ladner Gervais LLP  
Toronto, Ontario

### TRANSFER AGENT AND REGISTRAR

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Facsimile: (866) 249-7775  
Email: [service@computershare.com](mailto:service@computershare.com)

### STOCK EXCHANGE LISTING

Toronto Stock Exchange  
(Symbol: CSH.UN)

### UNITHOLDER AND INVESTOR CONTACT

Mr. Stephen Suske  
*Vice Chair and Co-CEO*  
Website: [www.chartwellreit.ca](http://www.chartwellreit.ca)

### ANNUAL MEETING OF UNITHOLDERS

4:30 PM ET  
Tuesday May 22, 2007  
Le Royal Meridien King Edward  
37 King Street East  
Toronto, Ontario

## Distribution Reinvestment Plan

Chartwell REIT's Distribution Reinvestment plan (DRIP) allows Unitholders to use their monthly cash distributions to steadily increase ownership in Chartwell without incurring any commission or brokerage fees.

To encourage participation, eligible investors registered in the DRIP will receive additional bonus units in an amount equal to 3% of their cash distributions. The right to receive the bonus units is being provided for no additional consideration.

Unitholders who are Canadian residents and a beneficial holder of 1,000 Units or more are eligible to participate.

The DRIP became effective with the March 2004 cash distribution. To register for the DRIP, please contact your investment advisor. More information is available at Chartwell's website at [www.chartwellreit.ca](http://www.chartwellreit.ca)

Chartwell proudly supports and is a member  
of the following organizations:

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[www.chartwellreit.ca](http://www.chartwellreit.ca)



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