CHARTWELL
SENIORS HOUSING REIT

Second Quarter 2004

Report to Unitholders

For the Three and Six Months Ended
June 30, 2004

CHARTWELL
SENIORS HOUSING REIT

August 13, 2004

To Our Unitholders

We were extremely active in the second quarter, both in growing our business and in building our infrastructure to ensure we can manage the significant growth that we are confident will continue in the quarters ahead.

During the six months ended June 30, 2004, we completed the acquisition of interests in thirteen seniors housing properties totaling 1,724 residential suites. We also closed on a significant number of development and mezzanine financing agreements that will also add to cash flow through the balance of the year. Subsequent to the end of the second quarter, we completed or agreed to acquire another five facilities aggregating 927 suites and additionally entered into several other development and mezzanine financing transactions. With the completion of these acquisitions, Chartwell's total portfolio of owned and/or managed facilities, including those under development, has increased by 20% since our Initial Public Offering last November.

Looking ahead, we are continuing to evaluate a number of additional acquisitions, developments and mezzanine financing transactions that will significantly enhance our cash flow. As a result, we are confident that we will meet our targeted cash distributions to Unitholders in 2004.

To ensure we can manage our current and projected growth, during the second quarter we added a number of professionals to our team, including a new Vice President of Real Estate Finance, a Vice President for Third-Party Management Services, a Vice President of Labour Relations, five general financial support staff and Western Canadian operations personnel. We also completed the consolidation of our multiple offices into a single leased head office in Mississauga.

In addition, we have taken a number of initiatives to enhance occupancies and operating performance across the portfolio, and we are already seeing positive results from these new marketing and branding programs. Portfolio occupancy has risen to 94% as at August 8, 2004 from 92% at the end of the second quarter, and we expect to see further improvement through the balance of the year.

In closing, while our initiatives in the quarter have increased our costs, we are confident our aggressive growth strategies will generate an increase in our distributable income and improved payout ratios going forward. We now estimate our distributable income run rate will be between $1.16 and $1.19 per Unit in the fourth quarter of 2004.

(signed) Stephen Suske Vice Chair & President	(signed) Robert Ezer Chief Executive Officer	(signed) Brent Binions EVP Long-Term Care and Government Relations

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Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and six-month periods ended June 30, 2004
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheet
(In thousands of Canadian dollars)

	June 30, 2004 (Unaudited)	December 31, 2003
Assets		
Properties (note 3)	$ 413,881	$ 276,027
Mezzanine loans receivable (note 4)	30,317	24,879
Management contracts, resident contracts and customer relationships (note 5)	47,168	43,518
Cash and cash equivalents	1,340	40,308
Other assets (note 6)	15,992	24,175
Licenses	8,130	–
Goodwill	10,300	10,300
	$ 527,128	$ 419,207
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	$ 261,004	$ 157,091
Bank loan payable (note 8)	15,000	–
Accounts payable and other liabilities (note 9)	13,554	14,625
Distributions payable	2,497	3,767
	292,055	175,483
Unitholders' equity	235,073	243,724
Commitments and contingencies (note 15)		
Subsequent events (note 18)		
	$ 527,128	$ 419,207

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Joseph Wright" Trustee

CHARTWELL SENIORS HOUSING
REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	Three-month period ended June 30, 2004	Six-month period ended June 30, 2004
Revenue:		
Resident	$ 27,519	$ 49,485
Mezzanine loan interest (notes 4 and 12(a))	1,014	1,887
Management fees (note 12(a))	951	1,884
Other	106	427
	29,590	53,683
Expenses:		
Direct operating	19,479	34,641
General and administrative	1,830	3,314
	21,309	37,955
	8,281	15,728
Interest expense (note 12(b))	3,045	5,694
Depreciation and amortization	7,581	13,245
	10,626	18,939
Write-down in carrying value of management contracts (note 5)	501	501
Loss for the period	$ (2,846)	$ (3,712)
Loss per unit (note 11)	$ (0.101)	$ (0.132)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Unitholders' Equity
(In thousands of Canadian dollars)

Six-month period ended June 30, 2004
(Unaudited)

	Units issued in dollars, net (note 10)	LTIP units under subscription	LTIP installment loans receivable	Losses	Distributions	Total
Unitholders' equity, January 1, 2004	$ 248,595	$ 8,753	$ (8,291)	$ (1,607)	$ (3,726)	$ 243,724
Loss for the period from January 1, 2004 to March 31, 2004	–	–	–	(866)	–	(866)
Distributions	–	–	–	–	(7,306)	(7,306)
Issuance of Class B units of Chartwell Master Care LP	7,919	–	–	–	–	7,919
Issue costs	(103)	–	–	–	–	(103)
Repayment of installment loans receivable	–	–	352	–	–	352
Interest on installment loans receivable	–	–	(80)	–	–	(80)
Distributions applied against installment loans receivable	–	–	251	–	–	251
Unitholders' equity, March 31, 2004	256,411	8,753	(7,768)	(2,473)	(11,032)	243,891
Loss for the period from April 1, 2004 to June 30, 2004	–	–	–	(2,846)	–	(2,846)
Distributions	–	–	–	–	(7,391)	(7,391)
Issuance of Class B units of Chartwell Master Care LP	1,000	–	–	–	–	1,000
Issuance of REIT units under the Distribution Reinvestment Program	242	–	–	–	–	242
Units issued under the Long-Term Incentive Program	–	363	(328)	–	–	35
Issue costs	(54)	–	–	–	–	(54)
Repayment of installment loans receivable	–	–	60	–	–	60
Interest on installment loans receivable	–	–	(76)	–	–	(76)
Distributions applied against installment loans receivable	–	–	212	–	–	212
Unitholders' equity, June 30, 2004	$ 257,599	$ 9,116	$ (7,900)	$ (5,319)	$ (18,423)	$ 235,073

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Three-month period ended June 30, 2004	Six-month period ended June 30, 2004
Cash provided by (used in):		
Operating activities:		
Loss for the period	$ (2,846)	$ (3,712)
Items not affecting cash:		
Depreciation and amortization	7,581	13,245
Write-down in carrying value of management contracts	501	501
Amortization of below-market resident contracts	(304)	(564)
Option benefit granted under the Long-Term Incentive Plan	18	18
Income from long-term investment	(9)	(19)
Distributions received on long-term investment	–	46
	4,941	9,515
Amortization of deferred financing expenses	91	175
Amortization of debt premium	40	64
Change in non-cash operating items	(1,600)	(3,289)
	3,472	6,465
Financing activities:		
Proceeds from mortgage financing	6,853	50,035
Proceeds from bank loan payable	15,000	15,000
Mortgage principal repayments	(1,576)	(5,336)
Deferred financing costs	(340)	(2,008)
Distributions paid	(7,001)	(15,418)
Deposits received under Long-Term Incentive Plan	77	600
Issue costs	(54)	(157)
	12,959	42,716
Investing activities:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(26,238)	(93,941)
Additions to properties	(1,161)	(1,801)
Mezzanine loans receivable	(3,207)	(5,438)
Restricted cash	–	13,000
Capital funding receivable	19	31
	(30,587)	(88,149)
Decrease in cash and cash equivalents	(14,156)	(38,968)
Cash and cash equivalents, beginning of period	15,496	40,308
Cash and cash equivalents, end of period	$ 1,340	$ 1,340
Supplemental cash flow information:		
Interest paid	$ 2,929	$ 5,562

Supplemental cash flow information (note 16)

See accompanying notes to consolidated financial statements.

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") is an unincorporated open-ended real estate investment trust created on July 7, 2003 pursuant to a Declaration of Trust, as amended. It is governed by the laws of Ontario. Chartwell REIT began operations on November 14, 2003 and invests primarily in real properties operated as retirement homes and long-term care facilities in Canada.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as the audited consolidated financial statements prepared as at and for the period ended December 31, 2003. During 2004, Chartwell REIT adopted the new accounting policies described in notes 1(b) and (c).

As Chartwell REIT commenced operations on November 14, 2003, comparative figures have not been presented in connection with the consolidated statements of income, unitholders' equity and cash flows.

These consolidated financial statements do not include all of the disclosures required by GAAP applicable to financial statements; therefore, they should be read in conjunction with the audited consolidated financial statements.

(b) 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 amount with their fair value.

1. Significant accounting policies (continued):

(c) Financial derivatives:

Chartwell REIT uses interest rate derivatives to manage its exposure to fluctuations in interest rates. When entered into, these derivatives are designated as hedges of the underlying liability. Gains or losses on hedges of existing assets or liabilities are deferred. Unrealized gains or losses on hedged commitments or anticipated transactions are not recorded in the consolidated financial statements until the transaction occurs.

Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

2. Acquisitions:

Chartwell REIT completed the acquisitions of:

(a) seven long-term care facilities and one retirement home contemplated by the initial public offering (the "Offering") on February 11, 2004;

(b) one retirement home in British Columbia on March 1, 2004;

(c) one retirement home in Ontario on April 29, 2004; and

(d) a 50% interest in seven senior housing facilities in Quebec on June 21, 2004.

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

2. Acquisitions (continued):

The acquisitions have been recorded by the purchase method, with the results of operations included in these financial statements from the date of acquisition. The following table summarizes the acquired net assets, at fair value:

	Acquisitions from January 1, 2004 to March 31, 2004	Acquisitions from April 1, 2004 to June 30 2004	Total
Assets:			
Properties	$ 68,513	$ 72,271	$ 140,784
Licenses	8,130	–	8,130
Resident contracts	6,572	6,144	12,716
Capital funding receivable	2,824	–	2,824
	86,039	78,415	164,454
Liabilities:			
Mortgages payable	7,464	50,328	57,792
Below-market resident contracts	795	339	1,134
Working capital	800	510	1,310
	9,059	51,177	60,236
Net assets acquired	$ 76,980	$ 27,238	$ 104,218
Settled by:			
Issuance of Class B units of Chartwell Master Care LP	$ 7,919	$ 1,000	$ 8,919
Vendor take-back mortgage	1,358	–	1,358
Cash	67,703	26,238	93,941
	$ 76,980	$ 27,238	$ 104,218

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

2. Acquisitions (continued):

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

Included in the above acquisitions are four long-term facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of $39,468. These properties were previously managed by Chartwell REIT (note 12(c)).

3. Properties:

			June 30, 2004			December 31, 2003
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
			(Unaudited)			
Land	$ 46,377	$ –	$ 46,377	$ 26,900	$ –	$ 26,900
Buildings	359,639	4,464	355,175	242,816	786	242,030
Furniture, fixtures and equipment	13,574	1,245	12,329	7,291	194	7,097
	$ 419,590	$ 5,709	$ 413,881	$ 277,007	$ 980	$ 276,027

4. Mezzanine loans receivable:

In accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement"), Chartwell REIT has advanced mezzanine loans of $30,317 (December 31, 2003 - $24,879) to Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management. The loans bear interest at a rate of 14% per annum and are secured by second charges or pledges of interest over 16 (December 31, 2003 - 10) seniors housing development properties. 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.

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

4. Mezzanine loans receivable (continued):

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 must 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 appraised fair market value, depending upon the amount of mezzanine financing provided on 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.

5. Management contracts, resident contracts and customer relationships:

			June 30, 2004			December 31, 2003
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
			(Unaudited)			
Management contracts	$ 5,640	$ 942	$ 4,698	$ 6,213	$ 404	$ 5,809
Resident contracts	46,846	8,930	37,916	34,131	1,496	32,635
Customers relationships	5,200	646	4,554	5,200	126	5,074
	$ 57,686	$ 10,518	$ 47,168	$ 45,544	$ 2,026	$ 43,518

Management contracts and customer relationships represent the value of contractual agreements to provide management and advisory services for the operations of seniors residences owned by third parties.

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

5. Management contracts, resident contracts and customer relationships (continued):

During the three-month period ended June 30, 2004, the termination of one management contract resulted in a write-down of $501 in the carrying value of management contracts.

Resident contracts represent in-place resident contracts valued at acquisition.

6. Other assets:

	June 30, 2004	December 31, 2003
	(Unaudited)	
Accounts receivable	$ 2,049	$ 2,243
Deferred financing costs, net of accumulated amortization of $216 (December 31, 2003 - $41)	3,585	1,752
Amounts receivable for closing adjustments (note 12(c))	1,809	3,589
Capital funding receivable	2,793	–
Deposits on acquisitions	230	630
Long-term investment	1,512	1,539
Restricted cash	–	13,000
Other (note 12(a))	4,014	1,422
	$ 15,992	$ 24,175

Included in other income is $9 and $19 of income earned from Chartwell REIT's long-term investment for the three-month and six-month periods ended June 30, 2004, respectively.

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

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

7. Mortgages payable:

Mortgages payable bear interest at fixed rates ranging from 3.75% to 7.75% (2003 - 4.15% to 7.75%) (weighted average interest rate of 5.43% (2003 - 5.68%)) per annum. All mortgages 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
2004	$ 3,501	$ 10,399	$ 13,900
2005	7,787	23,752	31,539
2006	7,625	18,210	25,835
2007	7,274	14,211	21,485
2008	7,461	22,674	30,135
	33,648	89,246	122,894
Thereafter	16,827	121,283	138,110
	$ 50,475	$ 210,529	$ 261,004

8. Bank loan payable:

The bank loan payable represents amounts outstanding on Chartwell REIT's revolving operating facility. Outstanding balances bear interest at the bankers' acceptance rate plus 1.875% and are secured by second charges on specific facilities.

9. Accounts payable and other liabilities:

	June 30, 2004	December 31, 2003
	(Unaudited)	
Accounts payable and accrued liabilities	$ 9,207	$ 7,367
Amounts payable for closing adjustments	–	3,858
Below-market resident contracts, net of $689 of accumulated amortization (2003 - $125)	3,298	2,728
Resident deposits	1,049	672
	$ 13,554	$ 14,625

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

10. Unitholders' capital:

Chartwell REIT's unitholders' capital is represented by two categories of unit equity: Trust Units and Special Voting Units issued to holders of Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of Chartwell REIT. 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. As a result, unitholders' capital includes the issued and outstanding Trust Units of Chartwell REIT, as well as the Class B Master LP Units.

Chartwell REIT is authorized to issue an unlimited number of Trust Units.

(a) The following units are issued and outstanding:

	Number of voting units	Amount
Units outstanding, January 1, 2004	27,475,500	$ 248,595
February 11, 2004:		
Issuance of Class B Master LP units	791,855	7,919
Less issue costs	–	103
Units outstanding, March 31, 2004	28,267,355	256,411
Units issued pursuant to the Distribution Reinvestment Plan	21,470	242
June 21, 2004:		
Issuance of Class B Master LP units	88,106	1,000
Less issue costs	–	54
Units outstanding, June 30, 2004	28,376,931	$ 257,599

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

10. Unitholders' capital (continued):

(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%.

(c) Long-Term Incentive Plan:

During the three-month period ended June 30, 2004, Chartwell REIT issued an additional 30,000 Trust Units pursuant to the Long-Term Incentive Plan ("LTIP") at $11.49 per Unit.

11. Loss per unit calculation:

	Three-month period ended June 30, 2004		Six-month period ended June 30, 2004	
	Weighted average units	Amount	Weighted average units	Amount
Loss for the period	28,285,406	$ (2,846)	28,097,996	$ (3,712)
LTIP units under subscription	832,253	–	828,626	–
	29,117,659	$ (2,846)	28,926,622	$ (3,712)
Loss per unit		$ (0.101)		$ (0.132)

12. Related party transactions:

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

(a) Under the terms of the Development Agreement (note 4), Chartwell REIT provides operations management and development management services to Spectrum. Chartwell REIT earned management fees of $444 and $621 with respect to these services during the three-month and six-month periods ended June 30, 2004, respectively.

12. Related party transactions (continued):

Chartwell REIT advanced an additional $2,231 and $5,438 in mezzanine loans to Spectrum during the three-month and six-month periods ended June 30, 2004, respectively.

Other assets as of June 30, 2004 include $435 (December 31, 2003 - $539) due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. These amounts were collected subsequent to the period end.

In addition, other assets include advances of $200 (December 31, 2003 - $200) due from a joint venture where Spectrum holds a 72.5% interest.

(b) During the three-month period ended March 31, 2004, in accordance with an Escrow Agreement, Chartwell REIT earned management fees in the amount of $298 and incurred interest expense in the amount of $80 from an entity controlled by an officer of Chartwell REIT.

(c) Other assets include $392 (December 31, 2003 - $358) due from entities controlled by officers of Chartwell REIT, and represent post-closing adjustments on acquisitions of properties (note 2). These amounts were settled subsequent to June 30, 2004.

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

13. Segmented information:

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

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

13. Segmented information (continued):

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.

	Three-month period ended June 30, 2004			
	Retirement operations	Long-term care operations	Management operations	Total
		(Unaudited)		
Revenue	$ 17,865	$ 9,654	$ 951	$ 28,470
Direct operating expenses	10,757	8,432	290	19,479
Income before the undernoted	7,108	1,222	661	8,991
Interest expense	2,543	502	–	3,045
Income before depreciation and amortization and write-down	4,565	720	661	5,946
Depreciation and amortization	5,382	1,700	499	7,581
Write-down in carrying values of management contracts	–	–	501	501
	$ (817)	$ (980)	$ (339)	(2,136)
Items not allocated to operating segments:				
Interest and other income				1,120
General and administrative expenses				(1,830)
				(710)
Loss for the period				$ (2,846)
Expenditures for assets by segment:				
Properties	$ 78,415	$ –	$ –	$ 78,415
Capital improvements	936	225	–	1,161

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

13. Segmented information (continued):

	Six-month period ended June 30, 2004			
	Retirement operations	Long-term care operations	Management operations	Total
		(Unaudited)		
Revenue	$ 33,441	$ 16,044	$ 1,884	$ 51,369
Direct operating expenses	20,148	13,920	573	34,641
Income before the undernoted	13,293	2,124	1,311	16,728
Interest expense	4,911	783	–	5,694
Income before depreciation and amortization and write-down	8,382	1,341	1,311	11,034
Depreciation and amortization	10,251	1,936	1,058	13,245
Write-down in carrying values of management contracts	–	–	501	501
	$ (1,869)	$ (595)	$ (248)	(2,712)
Items not allocated to operating segments:				
Interest and other income				2,314
General and administrative expenses				(3,314)
				(1,000)
Loss for the period				$ (3,712)
Expenditures for assets by segment:				
Properties	$ 93,483	$ 68,147	$ –	$ 161,630
Capital improvements	1,576	225	–	1,801

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

13. Segmented information (continued):

	June 30, 2004				
	Retirement operations	Long-term care operations	Management operations	Other	Total
	(Unaudited)				
Total assets	$ 416,659	$ 60,600	$ 19,552	$ 30,317	$ 527,128
Total liabilities	250,035	39,523	–	2,497	292,055

14. Joint Venture operations:

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

	Three-month period ended June 30, 2004
Assets	$ 52,843
Liabilities	34,419

Chartwell REIT is contingently liable for the other venturer's portion of the liabilities of the joint venture in which it participates, amounting to $34,419. The total assets of this joint venture is available to satisfy these liabilities.

15. 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 amount to approximately $270.

(b) Contingent consideration on acquisitions:

(i) The vendor of one property is entitled to receive an additional $4,250 contingent upon the property achieving predetermined operating targets, the measurement of which is to be made annually commencing on December 31, 2005. Any payments made by Chartwell REIT will be recorded in the financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

(ii) 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 facility. The ultimate amount paid will be recorded in the financial statements with a corresponding adjustment to the purchase price of the property when the suites are complete and/or the property achieves stabilization.

(iii) The vendor of an interest in two facilities is entitled to receive an additional $675 over a three-year period subject to the properties achieving certain earnings targets. Any payments made by Chartwell REIT will be recorded in the financial statements with a corresponding adjustment to the purchase price of the property when, and if, the targets are met and payments become due.

(c) Mezzanine loans receivable:

Under the terms of the Development Agreement (note 4), Chartwell REIT has committed to provide additional mezzanine financing to Spectrum in the amount of $13,221 as at June 30, 2004.

15. Commitments and contingencies (continued):

(d) Letters of credit:

As of June 30, 2004, Chartwell REIT was contingently liable for letters of credit in the amount of $189.

16. Supplemental cash flow information:

At June 30, 2004, distributions of $2,497 (December 31, 2003 - $3,767) remained payable to unitholders. This amount has been excluded from financing and operating activities in the consolidated statements of cash flows.

The acquisition of net assets (note 2) was partially financed through the issuance of $8,919 of Class B Units of Master LP and the issuance of a $1,358 vendor take-back mortgage. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

During the three-month and six-month periods ended June 30, 2004, distributions of $212 and $463, respectively, and interest of $76 and $156, respectively were applied against installment loans receivable related to the LTIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.

During the three-month period ended June 30, 2004, Trust Units valued at $242 were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.

17. 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 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) Interest rate risk:

All of Chartwell REIT's mortgage debt bears interest at fixed rates. Interest rate risk arises with changes in interest costs which affect Chartwell REIT's fixed rate long-term debt upon renewal. Generally, Chartwell REIT fixes the term of long-term debt within a range from 5 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.

(b) Collection risk:

Chartwell REIT is exposed to credit risk in the collection of its mezzanine loans receivable and accounts receivable. Chartwell REIT is exposed to normal credit risk from customers. Chartwell REIT has four significant categories of customers: governments, Spectrum, resident clients and retirement homes and long-term care facilities to which it provides management services. Government customers are comprised of various provincial governments. Credit risk associated with these customers relates to their ability to potentially challenge certain charges.

(c) Fair value:

Fair value represents management's estimates of the 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 June 30, 2004 were $263,159 as compared to their carrying values of $261,004.

As of June 30, 2004, the fair value of capital funding receivable approximates its carrying value.

17. Financial instruments and financial risk management (continued):

(d) Variable interest entities:

In June 2003, The Canadian Institute of Chartered Accountants (the "CICA") issued AcG-15, Consolidation of Variable Interest Entities. 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 is effective for all annual and interim periods, beginning on or after November 1, 2004.

Chartwell REIT is currently evaluating the impact of applying AcG-15 and has not yet completed its analysis.

18. Subsequent events:

Chartwell REIT has arranged for a secured bridge facility in the amount of up to approximately $62,100. There were no amounts outstanding on this facility as of June 30, 2004. Subsequent to June 30, 2004, Chartwell REIT borrowed $16,400 under this facility.

Subsequent to June 30, 2004, Chartwell REIT has completed the acquisition of two facilities located in Quebec and British Columbia for an aggregate purchase price of approximately $54,600.

On August 3, 2004, Chartwell REIT advanced mezzanine financing of $3,257 at 14% per annum to Spectrum to fund the development and lease-up of retirement residences in White Rock, British Columbia, Thunder Bay, Ontario and Guelph, Ontario.

On August 6, 2004, Chartwell REIT completed a secondary public offering and agreed to sell 6,250,000 units for $11.25 per unit for aggregate gross proceeds of approximately $70,313.

Subsequent to June 30, 2004, Chartwell REIT has agreed to acquire two facilities in Quebec and an interest in a facility in Ontario for an aggregate purchase price of $37,825.

Management's Discussion and Analysis

For the three and six months ended June 30, 2004

Chartwell Seniors Housing Real Estate Investment Trust (the "REIT" or "Chartwell") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and six months ended June 30, 2004. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of the REIT for the period and the notes thereto and the Management Discussion and Analysis and Audited Consolidated Financial Statements for the period from November 14, 2003 to December 31, 2003 ("Post IPO" period) and notes thereto found in Chartwell's 2003 Annual Report. Additional information about the REIT, including the Annual Information Form can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of August 11, 2004.

This discussion may contain forward-looking statements that reflect the current expectations of the management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. Chartwell has tried to identify these forward-looking statements by using words such as "may", "will", "expect", "anticipate", "believe", "intend", "plan", "estimate", "potentially" and similar expressions. Such forward-looking statements necessarily involve known and unknown risks and uncertainties that may cause Chartwell or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in the Management's Discussion and Analysis included in the REIT's 2003 Annual Report and other regulatory filings. There can be no assurance that the expectations of management of Chartwell will prove to be correct.

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The REIT prepares its financial statements in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

For a full discussion of the significant accounting policies and estimates, refer to the Management's Discussion and Analysis section of Chartwell's 2003 Annual Report. The unaudited interim consolidated financial statements for the three and six months ended June 30, 2004 follow the same accounting policies and methods of application except for any new or additional policies described in Note 1 to the Consolidated Financial Statements.

Effective January 1, 2004 the REIT adopted two new accounting policies. With the completion of the acquisition of long-term care facilities, a portion of the purchase price paid for such facilities is now allocated to licenses. Licenses are not amortized, but tested for impairment annually.

During the period the REIT entered into an interest rate swap arrangement where the variable interest rate debt is swapped for the fixed rate debt. This derivative financial instrument was designated as a hedge of the underlying liability. Gains and losses on this hedge are deferred.

Distributable Income (defined as net earnings before 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 and any exchangeable security distribution amount; plus up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for Long-Term Care facilities, and amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP) is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income is presented because management believes this non-GAAP measure is a relevant measure of the ability of the REIT to earn and distribute cash returns to Unitholders. Distributable Income as computed by the REIT may differ from similar computations as reported by other organizations and, accordingly, may not be comparable to distributable income as reported by such organizations. Effective January 1, 2004 the Board of Trustees approved a revision to the definition of Distributable Income to include up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for long-term care facilities and amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP. Distributable income run-rate is calculated by annualizing quarterly distributable income.

OVERVIEW

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

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("Retirement Homes") to long-term care facilities ("LTC Facilities"), all of which are located in Canada. As of June 30, 2004 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in 12,029 suites in 111 facilities which are operating, under construction or in various stages of development, located in the Provinces of Ontario, Alberta, British Columbia and Quebec. In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of seniors housing facilities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of each local marketplace. Chartwell employs approximately 3,500 people in its owned properties.

Chartwell has a first right to purchase additional stabilized seniors housing facilities through a development program carried out by Spectrum Seniors Housing Development LP (“Spectrum”), a development entity owned principally by the REIT’s senior management. Chartwell can provide mezzanine financing to Spectrum to develop seniors housing facilities and, in return, will receive a first right to purchase Spectrum’s interest in such facilities, when stabilized (a facility which has had an average resident occupancy rate of 90% or greater during the preceding three calendar months), at or below appraised value. As part of its seniors housing operations and development management business, Chartwell also provides management and advisory services, for a fee, to Spectrum in respect of its facilities and development program.

RESULTS OF OPERATIONS

The selected information presented below is based on the consolidated financial statements of the REIT for the three and six months ended June 30, 2004. No comparative results for the same periods in 2003 can be provided, as the entity was not in existence prior to November 14, 2003.

The REIT’s Offering prospectus dated October 31, 2003 included a statement of forecast income for the three months ended June 30, 2004 (the “Forecast”). The following table compares the unaudited results of the REIT for the six months ended June 30, 2004 and the three months ended June 30, 2004 with the financial Forecast presented in the REIT’s prospectus. In light of recent acquisitions and other events previously disclosed, management has updated its outlook for the year ended December 31, 2004. Details can be found in the Outlook section of this discussion.

Period ended June 30, 2004 ($,000 except per unit amounts)	Six months ended June 30/2004 Actual[1]	Six months ended June 30/2004 Forecast	Three months ended June 30/2004 Actual	Three months ended June 30/2004 Forecast
Revenue:				
Retirement homes	33,441	34,438	17,865	17,406
Long-term care facilities	16,044	20,467	9,654	10,269
Mezzanine loan interest	1,887	2,680	1,014	1,384
Management fees:				
Spectrum	621	980	444	509
Other	1,263	1,469	507	738
Other income	427	-	106	-
	53,683	60,034	29,590	30,306
Expenses:				
Direct operating	34,641	37,207	19,479	18,507
General and administrative	3,314	2,459	1,830	1,230
	37,955	39,666	21,309	19,737
Income before Interest, depreciation and amortization	15,728	20,368	8,281	10,569
Interest expense	5,694	5,991	3,045	3,029
Income before depreciation and amortization	10,034	14,377	5,236	7,540
Depreciation and amortization	13,245	2,929	7,581	1,477
Write down of carrying value of management contracts	501	-	501	-
Net income (loss)	(3,712)	11,448	(2,846)	6,063
Depreciation and amortization	13,245	2,929	7,581	1,477
Amortization of deferred financing expenses	175	144	91	72
Amortization of below market leases	(564)	-	(304)	-
Amortization of debt premiums	(346)	(340)	(184)	(170)
Write down of carrying value of management contracts	501	-	501	-
Principal portion of capital funding receivable	31	-	19	-
Amounts received under Net Operating Income guarantee	871	-	871	-
Distributable Income	10,201	14,181	5,729	7,442
Weighted average number of units outstanding	28,097,996	25,136,816	28,285,406	25,156,232
Dilutive LTIP	828,626	825,000	832,253	825,000
	28,926,622	25,961,816	29,117,659	25,981,232
Distributable Income per unit – basic	0.363	0.564	0.203	0.296
Distributable Income per unit – diluted	0.353	0.546	0.197	0.286
Distributions declared	14,853		7,467	
Distributions per unit - diluted	0.514		0.256	

1) The accounting policy for depreciation and amortization used in the forecast did not contemplate the new policies required to be adopted by all real estate companies effective January 1, 2004 (see discussion under Depreciation and Amortization).

Revenue

Retirement Homes

Retirement homes revenues for the six months ended June 30, 2004 were lower than expected due to the following:

Regulatory delays in the acquisition of one free standing retirement home and three retirement homes housed in long-term care facilities resulting from elections held in Ontario in the fall of 2003. Management had anticipated these acquisitions would be completed by December 31, 2003. These acquisitions were completed by February 11, 2004.

The anticipated lease-up of a retirement facility in Western Canada was slowed by a delay in the opening of an adjacent long-term care facility, not owned by the REIT. The vendor of this facility provided the REIT with a net operating income guarantee of $1.0 million to compensate the REIT in the event of a shortfall in actual net operating income compared to Forecast. The REIT has collected $0.871 million in respect of this income guarantee.

Lower than Forecast occupancies in seven other facilities also contributed to a reduction in retirement home revenues for the period. Management implemented a comprehensive marketing strategy to address the occupancies in these facilities. As a result the majority of these facilities have seen an improvement in occupancies and we expect their revenue shortfall to decline over the remainder of the year. In addition operating costs were reduced in a number of these facilities to offset the impact of the lower occupancies.

For the three months ended June 30, 2004 retirement home revenues were higher than Forecast due to the contribution from two facilities acquired in the first six months of the year and not included in the Forecast. This increase in revenue was offset by the reduction as a result of the items described above.

Long Term Care Facilities

Revenues from Long-Term Care facilities for the six months ended June 30, 2004 were lower than forecasted due primarily to regulatory delays in closing the acquisition of seven long-term care facilities that management had anticipated would close by December 31, 2003. The acquisition of these facilities was completed by February 11, 2004.

In addition lower than expected occupancies at two long-term care facilities, one of which was in lease up at the time of acquisition, contributed to a reduction in long-term care revenues for the three and six months ended June 30, 2004.

The facility that was in lease up filled up slower than anticipated. This facility is now 94% occupied and expected to achieve full occupancy in the third quarter.

The other long term care facility will be undergoing a capital expenditure program that will reposition the facility and increase the potential revenue due to the conversion of suites that will create additional preferred accommodation. It is anticipated that this will be completed in the fourth quarter with the resulting benefits commencing in 2005.

Competition in Ontario resulting from the addition of approximately 16,700 new long-term care beds over the past 4 years is expected to continue putting pressure on occupancies in the short-term on certain of the REIT's long-term care and retirement homes. However, management believes demographic trends will create sufficient demand for this surplus of beds in the near term.

Mezzanine Loan Interest

Revenues from mezzanine loan interest for the three and six months ended June 30, 2004 were lower than forecast due to the following:

Previously reported delays in obtaining regulatory approval resulted in the delay in the commencement of five initial development projects by Spectrum and their acquisition for re-development of a portfolio of three seniors housing facilities beyond the originally anticipated December 31, 2003 closing date.

Management anticipates that the majority of the delayed development projects mentioned above and included in the Forecast will commence by the third quarter of 2004.

During the first six months of 2004, the REIT advanced additional mezzanine funds for three Spectrum projects not included in the Forecast and identified five other projects for which funds will be advanced in the third and fourth quarters of 2004. In addition management is actively pursuing other investment opportunities. Based on the anticipated investment activity, management believes that mezzanine interest income will be in line with what was forecasted for the third and fourth quarters of 2004.

The REIT acquired a facility originally forecasted to be acquired by Spectrum. The reduction in interest income and management fees as a result of Spectrum not acquiring this facility has been offset by the operating income that the REIT now receives.

Management Fees

Management fees from Spectrum and other third parties were lower than Forecast for the three and six months ended June 30, 2004 due primarily to the delays in the commencement of certain development projects and Spectrum acquisitions mentioned above.

Three of the delayed projects started generating fees for the REIT in the second quarter. Management anticipates that the majority of the other delayed Spectrum development projects will commence in the third quarter of 2004.

In the second quarter the REIT earned management fees from two additional projects not in the original forecast.

A client of the REIT notified it that it would be canceling a management contract during the third quarter of 2004. As a result, the REIT recorded a one-time reduction in the carrying value of management contracts in the second quarter of $0.5 million with respect to this contract.

Management fees for the six months ended June 30, 2004 also included the amounts earned pursuant to the escrow closing at November 14, 2004 of three long-term care facilities. This revenue ceased on February 11, 2004 with the acquisition of the facilities. In addition, the REIT entered into four new third-party management contracts during the 2004 that were not included in the Forecast.

The REIT anticipates that revenue from management fees will be in line with what was forecasted for the third and fourth quarter.

Other Income

Other income represents primarily interest income earned in the period on the excess cash proceeds from the IPO that were not deployed for acquisitions through the first six months of 2004. This cash was generated by an over-allotment option exercised by the underwriters following the REIT's IPO, and was not included in the Forecast. The over allotment funds were fully deployed by the end of the second quarter of 2004.

Expenses

Direct Operating Expenses

Direct operating expenses for the six months ended June 20, 2004 were lower than anticipated due to the reduction in the number of facilities owned and managed by the REIT resulting from the regulatory delays in the acquisition of eight seniors housing facilities forecasted to close by December 31, 2003.

Direct operating expenses in the second quarter of 2004 were higher than Forecast due to the costs associated with operating facilities acquired during the period and higher property operating overheads. The higher operating overhead costs were incurred in order to support the current and anticipated growth in the REIT's portfolio. With the infrastructure now in place we expect the impact of these costs on margins to diminish over time.

General and Administrative Expenses

General and administrative expenses, including trust expenses, were higher than Forecast in the second quarter and the first six months of 2004 due primarily to the addition of new staff during the second quarter to manage Chartwell's current and future growth (including a new VP Real Estate Finance, VP Third-Party Management Services, VP Labour Relations, five general financial support staff and western Canadian operations personnel) and the costs to consolidate multiple offices into a single leased head office facility in Mississauga, Ontario. In addition, Chartwell has experienced higher than anticipated securities regulation compliance costs through the first six months of 2004. Management anticipates that general and administrative expenses will represent approximately 5% of gross revenues for the full year of 2004.

Interest Expense

Interest expense was in line with the Forecast in the second quarter of 2004. For the six months ended June 30, 2004 interest expense was lower than anticipated due to lower overall mortgage debt in the first quarter of the year resulting from the aforementioned delays in completing acquisitions that had been anticipated to be completed prior to December 31, 2004.

Depreciation and Amortization

Depreciation and amortization expense for the three and six months ended June 30, 2004 was significantly higher than Forecast due to the required adoption of two new accounting policies not contemplated in the Forecast. These policies were required to be adopted by all Canadian real estate companies in order to comply with the new CICA requirements of EIC-140 "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination" and Handbook Section 1100 "Generally Accepted Accounting Principles". As a result of the EIC -140 amortization expenses increased by approximately $4.5 million ($0.155 per diluted unit) in the second quarter and $7.3 million ($0.252 per diluted unit) in the first six months of 2004 due to shorter amortization period for acquired resident contracts. The Forecast did not stipulate allocation of purchase price to these intangible assets. In addition, depreciation expense increased by approximately $1.6 million ($0.055 per diluted unit) in the second quarter and $3.0 million ($0.104 per diluted unit) in the first six months of 2004 due to a required change in accounting policy for depreciating real property from the sinking fund method, which had been used in the Forecast, to the straight line method.

Operating Margins

The retirement homes operations generated gross margins of 38.8% for the three month period ended June 30, 2004 and 38.7% for the six month period ended June 30, 2004. These were slightly below management expectations primarily due to occupancy issues and higher operating overhead costs previously discussed.

The revenue per the financial statements includes the amortization of below market leases which have been excluded from the calculations above.

The long-term care operations generated gross margins of 13.2% for the six months ended June 30, 2004 and 12.6% for the three months ended June 30, 2004. This compares to the gross margin of 14.1% in the first quarter. The lower margins are due mainly to the continuing pressures from competition in Ontario, which resulted in lower than expected occupancies in certain facilities.

The management operations generated a gross margin of 69.6% for the three month period ended June 30, 2004 and 69.5% for six month period ended June 20, 2004, which was consistent with management expectations

Net Income

Net Income was below forecast primarily due to the significant increase in Depreciation and Amortization expenses as a result of the adoption of required accounting changes, lower than anticipated revenue and higher operating and General and Administration costs, as discussed above.

Distributable Income and Distributable Income per Unit

As previously indicated the REIT has revised its definition of distributable income effective January 1, 2004. This change on the calculations of distributable income for the six months period ended June 30, 2004 resulted in an increase of $0.9 million compared to Forecast.

The lower actual distributable income and distributable income per unit in the first and second quarters of 2004 than Forecast is due primarily to the following:

i) On November 24, 2003, the REIT raised $29.7 million net of issue costs through the issuance of 3.150 million of Trust units pursuant to the over allotment option. This capital was not fully deployed in income producing properties until near the end of the second quarter of 2004. The increase in units outstanding also negatively impacted per unit amounts.

ii) As discussed above, the acquisition of eight seniors housing facilities Forecasted to close prior to December 31, 2003 were delayed due to regulatory delays. All of these acquisitions were completed by February 11, 2004. Four of these facilities were operated in escrow by the vendors for the account of the REIT, from November 14, 2003 to the date of closing.

iii) The mezzanine financing advances to Spectrum and related management fees with respect to a portfolio of four seniors housing facilities contemplated by the Offering were also postponed past the anticipated December 31, 2003 closing date due to regulatory delays. Despite these delays, management continues to actively pursue these and alternative investment and fee opportunities.

iv) Direct operating costs and general and administrative costs were also higher than Forecast in the first and second quarters of 2004 due to factors outlined earlier in this discussion.

v) The REIT experienced certain operating and occupancy issues through the first six months of 2004 as outlined earlier in this discussion.

FINANCIAL POSITION

	June 30, 2004	December 31, 2003
Real Property Investments	413,881	$276,027
Total Assets	527,128	419,207
Mortgages Payable	261,004	157,091
Total Liabilities	292,055	175,483
Unitholders' Equity	235,073	243,724
Total Liabilities and Equity	527,128	419,207

The increase in total assets as at June 30, 2004 compared with December 31, 2003 is due primarily to the completion of acquisitions of eight seniors housing facilities contemplated by the IPO. In addition, during the six months period ended June 30, 2004, the REIT acquired two seniors housing facilities and a 50% interest in seven facilities. The increase in licenses from the year-end is due to the acquisition of long-term care facilities in the period.

Mortgages payable increased from December 31, 2003 due primarily to financing of acquisitions completed in the period and mortgages assumed in these transactions, partially offset by mortgage principal repayments of approximately $5.4 million. As a result of its acquisition activity, the REIT accessed its credit lines and incurred bank indebtedness of approximately $15 million as at June 30, 2004.

PROPERTY PORTFOLIO

The following table summarizes the composition of Chartwell's real estate portfolio as at June 30, 2004 as compared to December 31, 2003:

As at	June 30, 2004	December 31, 2003
Number of suites	5,043	3,319
Number of properties	53 [2]	40 [1]
Composition (% of annualized NOI)		
Independent living	24%	20%
Retirement homes	61%	71%
Long-Term Care facilities	15%	9%

1) AS AT DECEMBER 31, 2004, FOUR OF THESE FACILITIES WERE OPERATED IN ESCROW BY THE VENDORS FOR THE ACCOUNT OF CHARTWELL. THE ACQUISITION OF THESE FACILITIES WAS COMPLETED ON FEBRUARY 11, 2004.
2) INCLUDES 7 PROPERTIES IN WHICH CHARTWELL HOLDS A 50% INTEREST.

The increase in the property portfolio as at June 30, 2004 is due to the acquisition of interests in 13 properties (1,724 suites) over the six month period.

The portfolio is geographically diversified with 64% of total suites situated in Ontario, 10% in Alberta, 22% in Quebec and 4% in British Columbia as at June 30, 2004. The REIT does not own or manage facilities in the United States.

Chartwell established a new joint venture relationship with Groupe Melior Inc., a manager and operator of seniors housing facilities in the Province of Quebec. Under the agreement, Chartwell and Melior formed a new management company, 50% owned by each of Chartwell and Melior, to operate all of the properties to be owned by Melior and Chartwell in the Province of Quebec.

Through this joint venture, Chartwell acquired a 50% interest in seven properties in such centres as Aylmer, Hull and Quebec City for approximately $50.6 million. In total, the portfolio consists of 1,032 independent living, assisted living and long-term care suites in operation or in lease-up. Chartwell will also have access to a development pipeline of a further 480 suites in properties located throughout the Province.

This strategic relationship with an established and proven participant in the Quebec seniors housing business is a key element in Chartwell's plan to grow its presence in the Province.

As at June 30, 2004, overall occupancy in the REIT's portfolio declined to 92% compared with 94% at December 31, 2003. The decline in occupancy is mainly due to the aforementioned occupancy issues at certain facilities. As previously discussed the REIT's marketing efforts resulted in improved occupancy at certain facilities and the overall portfolio occupancy was 94% as of August 8, 2004.

MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2004:

Year	Regular Principal	Principal Due at Maturity	Total	Weighted Average Interest Rate of Maturing Debt
2004	3,501	10,399	13,900	4.61%
2005	7,787	23,752	31,539	4.86%
2006	7,625	18,210	25,835	4.58%
2007	7,274	14,211	21,485	4.79%
2008	7,461	22,674	30,135	5.47%
2009-2014	15,394	116,069	131,463	5.62%
2015-2020	1,433	5,214	6,647	7.25%
Total	50,475	210,529	261,004	

The average term to maturity for the total mortgage portfolio is approximately 5.4 years, and the weighted average interest rate is 5.43%.

During the first six months of 2004 the REIT arranged for new mortgage financing for ten of its newly acquired facilities in the total amount of $50.0 million. This mortgage debt bears interest at a weighted average rate of 5.55% and matures on various dates up to February 2014. In addition the REIT assumed mortgages totaling $57.8 million, of which $2.6 million was repaid on closing. The vendor of one facility, an entity controlled by certain officers of the REIT, provided Chartwell with a vendor take back mortgage in the amount of $1.4 million. This mortgage is interest free and matures on December 1, 2005. The REIT also entered into the interest rate swap on a $13.8 million mortgage, securing a fixed rate of 5.95% including stamping fee until the mortgage maturity in February 2014.

The maximum debt leverage permitted by Chartwell's Declaration of Trust is 60%. At June 30, 2004 Chartwell's debt leverage ratio was 50.8%. After the completion of the secondary public offering on August 6, 2004 and taking into consideration acquisitions and mezzanine financing completed by that date, Chartwell's debt leverage ratio was approximately 44.4%. If Chartwell were to increase its borrowing to the maximum 60% allowed under its declaration of trust, it would increase its available cash by $103 million. This combined with the available proceeds from the secondary public offering, would allow the REIT to acquire approximately $367 million of new assets. Management of the REIT does not expect that its debt leverage ratio will exceed 55% on a long-term basis.

CONTRACTUAL OBLIGATIONS

The REIT's major contractual obligations as at June 30, 2004 were as follows:

Payment due by Period	(000's of dollars)						
	Total	2004	2005	2006	2007	2008	Thereafter
Mortgages Payable	261,004	13,900	31,539	25,835	21,485	30,135	138,110
Operating Leases	3,031	51	192	260	280	280	1,968
Land Rent	7,245	63	126	126	126	126	6,678
Mezzanine Loan Funding Obligations	4,658	4,658					
Purchase Obligations	102,325	96,675	5,650				
Total Contractual Obligations	378,263	115,347	37,507	26,221	21,891	30,541	146,756

Operating leases relate to the agreements entered into by the REIT for office space in Ontario and Western Canada.

Land rent relates to an obligation assumed by Chartwell in respect of a land lease which expires on July 17, 2061 with annual payments of $126.

Mezzanine loan funding obligations relate to approved loans to Spectrum to fund the development and lease-up of four retirement residences in Ontario and British Columbia.

Purchase obligations relate to announced acquisitions of five seniors housing facilities for a total purchase price of $92.4 million and to three contingent considerations on other acquisitions. The vendor of one property is entitled to receive an additional $4.25 million in 2004 contingent upon the property achieving certain operating targets. A second acquisition agreement commits Chartwell to the payment of up to $5.0 million in 2005 in respect of certain suites being added to the acquired facility, and the property achieving certain operating targets. A third agreement commits Chartwell to the payment of $0.68 million in respect of two properties upon these properties achieving predetermined income targets.

LIQUIDITY AND CAPITAL RESOURCES

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

Chartwell's principal source of liquidity is cash on hand and cash flow from operations. In addition the REIT has arranged a secured revolving operating facility in the amount of up to $16.2 million. The operating facility can be increased up to $25 million by the REIT upon the provision of further security. As of June 30, 2004 the REIT had borrowed approximately $15 million under this facility. Chartwell has also arranged for a secured bridge facility in the amount of up to approximately $62.1 million. There were no amounts drawn on this facility as of June 30, 2004. Subsequent to the end of the quarter the REIT borrowed $16.4 million under this facility.

The REIT has completed a secondary offering which closed on August 6, 2004 and issued 6.25 million trust units at $11.25 per unit. The gross proceeds amounted to $70.3 million and were used to repay the balances outstanding under the REIT's credit facilities. The remaining proceeds will be used for future investments.

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 capital expenditures on the properties.

Management is confident that the REIT operations will generate sufficient cash resources to maintain its current level of distributions.

The following table summarizes Chartwell's cash flows for the period:

	Six months ended June 30, 2004	Period from Nov. 14, 2003 to Dec. 31, 2003
Cash provided by (used) in:		
Operating activities	6,465	(7,560)
Financing activities	42,716	259,246
Investing activities	(88,149)	(211,378)
Increase (Decrease) in cash and cash equivalents	(38,968)	40,308

Cash provided by operating activities increased mainly due to strong funds from operations in the period offset by the negative change in non-cash working capital. The changes in the non-cash working capital is mainly due to the shortening of payment terms to suppliers and higher outstanding deposits and prepaid expenses.

Cash provided by financing activities represents mainly the proceeds from new mortgage financings, and draws on operating credit facility offset by debt principal repayments and distributions. Financing activities for the period ended December 31, 2003 include proceeds from the IPO.

Investing activities for the six months ended June 30, 2004 represent cash used for the acquisition of interests in 17 seniors housing facilities and advances to Spectrum for the development of 7 seniors housing facilities. This compares with the acquisition of 40 properties in the period ending December 31, 2003 and mezzanine loans advanced for 10 development projects undertaken by Spectrum.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the period from January 1, 2004 to June 30, 2004:

i) Under the terms of the Development Agreement with Spectrum, a company controlled by the senior management of the REIT, dated November 14, 2003, the REIT provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

As of June 30, 2004, the REIT had advanced $30.3 million (December 31, 2003 - $24.9 million) of mezzanine funds to Spectrum. These loans bear interest at 14% and are secured by second charges or pledges in the interest over 16 seniors' housing development properties. 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 achieved stabilized occupancy, as defined in the Development Agreement.

For the second quarter and first six months of 2004, the REIT earned interest income of $1.0 million and $1.9 million respectively on its mezzanine loans and $0.4 million and $0.6 million respectively of management fees from Spectrum. Accounts receivable as of June 30, 2004 include $0.4 million due from Spectrum. These amounts were repaid subsequent to June 30, 2004.

In addition, accounts receivable includes $0.2 million due from a joint venture where Spectrum holds a 72.5% interest.

ii) In February, 2004, the REIT acquired four seniors housing facilities acquired from the entities controlled by officers of Chartwell for a total purchase price of $39.4 million. The purchase price was settled for a cash payment of $30.1 million, the issuance of 791,855 Class B Units of Master Care LP valued at $7.9 million and a vendor-take-back mortgage of $1.4 million.

Prior to closing these facilities were operated in escrow by the vendors for account of Chartwell. During the period, Chartwell earned management fees in amount of $0.3 million and accrued interest expense in amount of $0.1 million pursuant to the Escrow Agreement.

iii) Included in other assets are $0.4 million (December 31, 2003 - $0.4 million) due from entities controlled by officers of Chartwell REIT and represent post closing adjustments on acquisitions of properties. These amounts were repaid subsequent to June 30, 2004.

SUBSEQUENT EVENTS

On July 8, 2004 the REIT completed the acquisition of Cite-jardin, a 282 suite independent living facility located in Gatineau, Quebec. The effective purchase price for the acquisition was approximately $36.2 million which was satisfied by the initial payment of approximately of $7.5 million in cash and the assumption of approximately $23 million of debt. The second installment of the purchase price in the amount of approximately $5.7 million is anticipated to be paid by the end of 2004.

On July 29, 2004 the REIT completed the acquisition of Willow Manor Retirement Residence, a 100 suite independent living and 35 long term care beds facility located in Maple Ridge, British Columbia. The purchase price is approximately $18.4 million, which was satisfied by a cash payment of $6.5 million and an assumption of existing debt of $11.4 million and the assumption of approximately $0.5 million of other liabilities.

On August 6, 2004, Chartwell completed a secondary public offering and agreed to sell 6,250,000 Units for $11.25 per Unit for aggregate gross proceeds of approximately $70.3 million to a syndicate of underwriters on a bought-deal basis. The gross proceeds were used to repay the balances outstanding under the REIT's credit facilities and the remaining proceeds will be used for future investments.

By August 6, 2004 Chartwell advanced mezzanine financing of $3.3 million at 14% to Spectrum to fund the development and lease-up of three retirement residences in British Columbia and Ontario.

Subsequent to June 30, 2004, Chartwell announced that it will be acquiring a 50% interest in Brookside Manor, an 85-suite retirement home situated in Kanata in the West Ottawa market for a purchase price of approximately $3.8 million. Chartwell retains an option to acquire the remaining 50% after two years.

Subsequent to June 30, 2004, Chartwell announced that it will be providing $1.5 million in mezzanine financing to Spectrum, representing 50% of the financing to develop the 138-suite Riverside Retirement Village, an independent seniors residence in London Ontario. Chartwell will receive interest of 14% on its mezzanine financing, as well as a development fee of approximately $0.5 million and a management fee of $0.2 million when the project becomes operational. Chartwell has the option to purchase the property when operational and fully stabilized, scheduled for June 2007.

Subsequent to June 30, 2004 Chartwell announced that it had agreed to acquire Residence Le Duplessis, a 223 suite independent living facility located in Trois Rivieres, Quebec and Residence Ste. Genevieve a 202 suite independent living facility situated in Quebec City. Occupancy is currently over 96% in the two properties. The purchase price for the two facilities is approximately $34.0 million in the aggregate. Management expects the transaction will close in August, 2004. The properties will be managed by CM Management Limited Partnership, the joint venture between Chartwell and Le Groupe Melior Inc. that was established in June 2004.

OUTLOOK

Management continues to aggressively seek out and evaluate a number of acquisition, development and mezzanine financing opportunities that it believes will significantly add to revenues and distributable income through the balance of 2004 and beyond. The Canadian seniors housing industry is highly fragmented with the ten largest participants in the business accounting for only 23% of Canadian seniors housing suites. As the country's second largest industry participant, Chartwell believes it has the resources and the experience to structure and offer smaller operators an exit strategy that will meet their needs. Chartwell also has access to over 3,000 suites currently owned by Spectrum. Chartwell has the option to acquire these suites at a cost that is at or below appraised value.

Chartwell also believes that internal revenue growth will come from enhancing the already high occupancies in its properties and through the introduction of innovative new services to residents. It is also confident that overall profitability will increase as the REIT captures the economies of scale resulting from the growth in its portfolio, as well as enhanced efficiencies in administration, operations, purchasing and cost control. In addition, it is anticipated that new suites will be added to existing facilities through property expansions.

Demand for seniors housing continues to grow significantly in Canada, driven by positive demographics, increased life expectancy, and the fact that seniors are wealthier than ever before, better informed about the range of options available to them, and are able to afford the level of service they want and need. Chartwell believes it is well positioned to capitalize on this increase in demand.

In light of recent acquisitions and other previously disclosed developments, management has updated its outlook for the year ended December 31, 2004 with reference to the Forecast. All per Unit amounts in this update are fully diluted. Management does not intend to provide guidance or forecasts on an ongoing basis.

In the aggregate, management expects that the transactions announced to date and not included in the Forecast, will add approximately $3.7 million (or $0.14 per Unit) to distributable income for 2004.

Offsetting this anticipated increase in distributable income are a number of factors, many of which are non-recurring, that are expected to reduce distributable income and distributable income per Unit in 2004 compared to the distributable income calculated in the Forecast. Management is confident that annualized monthly cash distributions to Unitholders of $1.025 per Unit will remain unaffected.

As previously disclosed, and as is customary, the Forecast for distributable income did not reflect the issuance of 3.15 million Units pursuant to an underwriters' over-allotment option in connection with the IPO. As a result, there were 12.1% more Units outstanding than contained in the Forecast. The $29.7 million net of issue costs raised through the over-allotment option was not fully deployed in income-producing properties until near the end of June 2004. Management estimates that the non-recurring dilutive impact of this increase in Units outstanding will reduce distributable income by approximately $0.11 per Unit in 2004 from the Forecast amount (without accounting for reinvestment as noted above).

As previously disclosed, Chartwell's operations were impacted through the first three months of 2004 by a reduction in revenues compared to the Forecast resulting from a delay in obtaining regulatory approvals in Ontario due to the provincial and municipal elections that occurred in the fall of 2003. In producing the Forecast, management had anticipated that a number of acquisitions, development management agreements and mezzanine financing transactions would have been completed prior to December 31, 2003. The delays in completing these particular transactions are expected to result in a non-recurring reduction in 2004 distributable income of approximately $2.1 million (or $0.08 per Unit) as compared to the Forecast.

Management has also previously disclosed that general and administrative expenses incurred in the first quarter, were higher than provided in the Forecast, primarily due to higher legal costs associated with securities regulation compliance. The REIT has also added professional staff to accommodate significant future growth (i.e. new VP Real Estate Finance, VP Third-Party Management Services, VP Labour Relations, five general financial support staff and western Canadian operations personnel) and the consolidation of multiple offices into a single leased head office. Management estimated at the end of Q1 2004 that the increased G&A expenses over the course of the year would be approximately $1.5 million (or $0.06 per Unit) higher than provided in the Forecast and such estimate remains valid. Management currently estimates that approximately 25% of the increase is due to costs relating to the start up of the REIT and are not ongoing in nature. In addition, increased property operating overhead costs are being incurred that will result in a reduction in distributable income of approximately $0.9 million (or

$0.03 per Unit) in 2004 from that set out in the Forecast. Management believes that a significant amount of the General and Administrative expense increases is attributable to the growth in the number of facilities in the REIT since the time of the IPO, but expects future growth to be accommodated without commensurate increases in General and Administrative costs.

In addition Chartwell has experienced certain unanticipated operating issues primarily related to three facilities in Alberta and two long-term care facilities in Ontario. Management has taken a number of steps to address these issues and expects their impact on distributable income will cease by the end of 2004. These issues are expected to contribute to a reduction in distributable income of approximately $1.5 million (or $0.06 per Unit) in 2004 from that set out in the Forecast.

As a result of these factors, and based on currently available information and announced transactions, Chartwell now estimates that total distributable income for the year ended December 31, 2004 is expected to be approximately $29.8 million or ($0.95 per Unit). This compares to distributable income of $29.7 million (or $1.14 per Unit) as discussed in the MD&A and the Forecast.

In updating the outlook for 2004, management has considered Chartwell's anticipated performance, growth in the number of facilities (including additional unannounced transactions contemplated for the balance of 2004), and the bought deal offering of Units announced on July 20, 2004. Taking these factors into account, management estimates its annualized distributable income run-rate to be between $1.12 and $1.15 per Unit in the third quarter of 2004, and between $1.16 and $1.19 per Unit in the fourth quarter of 2004.