MANAGEMENT'S DISCUSSION AND ANALYSIS

Q2

SECOND QUARTER REPORT

JUNE 30, 2008

CHARTWELL
SENIORS HOUSING REIT

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SENIORS HOUSING REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

For the Three and Six Months Ended June 30, 2008

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Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and six months ended June 30, 2008. This MD&A should be read in conjunction with Chartwell's financial statements for the three and six months ended June 30, 2008 and the notes thereto (the "Financial Statements"), audited financial statements for the year ended December 31, 2007 and the notes thereto (the "2007 Financial Statements") and annual Management's Discussion and Analysis for the year ended December 31, 2007 (the "2007 MD&A"). This material is available on Chartwell's website at www.chartwellreit.ca. Additional information about Chartwell, including the Renewal Annual Information Form, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of August 11, 2008.

In this document, "Q1" refers to the three month period ended March 31; "Q2" refers to the three month period ended June 30; "Q3" refers to the three month period ended September 30; "Q4" refers to the three month period ended December 31; "YTD" refers to the six month period ended June 30.

Unless otherwise indicated, all comparisons of results for Q2 2008 are in comparison to results from Q2 2007 and all comparisons of results for 2008 YTD are in comparison to 2007 YTD.

All dollar references, unless otherwise stated, are in Canadian dollars. Amounts in United States dollars are identified as U.S.$.

Business Overview

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

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. Chartwell indirectly owns and manages a portfolio of seniors housing communities across the complete spectrum of care from independent living communities ("IL Communities"), through retirement homes ("Retirement Homes"), to long-term care communities ("LTC Communities"), which are located in Canada and the United States. All references to "Chartwell", "we" or "Trust", unless the context indicates otherwise, refer to Chartwell Seniors Housing Real Estate Investment 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 June 30, 2008, Chartwell's portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 37,401 suites in 271 communities which are operating, under construction or in various stages of development. Chartwell's portfolio of owned and leased communities consisted of interests in 28,389 suites in 202 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 our clients and the demands of their local marketplace.

Our Vision

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

Our Mission

Our mission is:

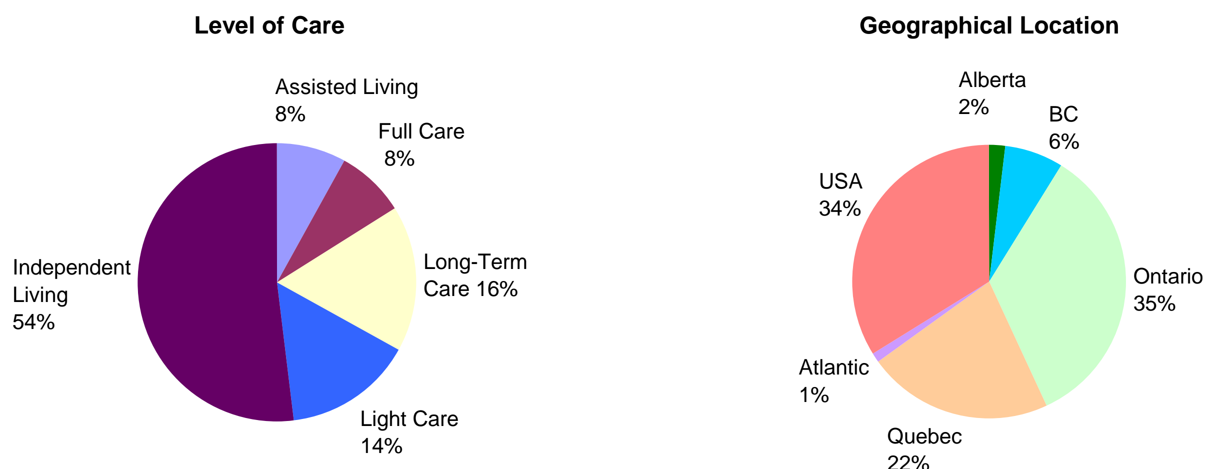
- to be the most trusted name in seniors housing;
- to provide accommodation, care and services in every home, reflective of our residents' needs, preferences and interests, and adapt as they evolve;
- to ease the transition through the various stages of aging by providing a full continuum of care in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

The following is the composition of Chartwell's owned, leased and managed portfolio of seniors housing communities in its four operating segments at June 30, 2008:

	Canadian Retirement Operations (2)(3)(6)	Canadian Long-Term Care Operations (4)	United States Operations (5)(7)	Canadian Management Operations (2)	Total
Communities (1)	102	27	76	66	271
Suites/Beds	12,056	3,568	12,765	9,012	37,401

(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.
(2) Includes stabilized, lease-up and communities under development.
(3) Includes 9 communities (1,475 suites) where Chartwell owns a 50% interest and one community (53 suites) where Chartwell owns a 39% interest.
(4) Includes eight communities (1,384 beds) in which Chartwell owns a 50% interest.
(5) Chartwell owns a 50% interest in 26 communities (4,636 suites), a 100% interest in 23 communities (2,264 suites), a 49% leased interest in 25 communities (5,632 suites), and a 100% leased interest in two communities (233 suites).
(6) Includes 348 suites under development at five existing communities.
(7) Includes 98 suites under development at one existing community 50% owned by Chartwell.

Composition of Portfolio of Owned, Leased and Managed Suites at June 30, 2008 by:



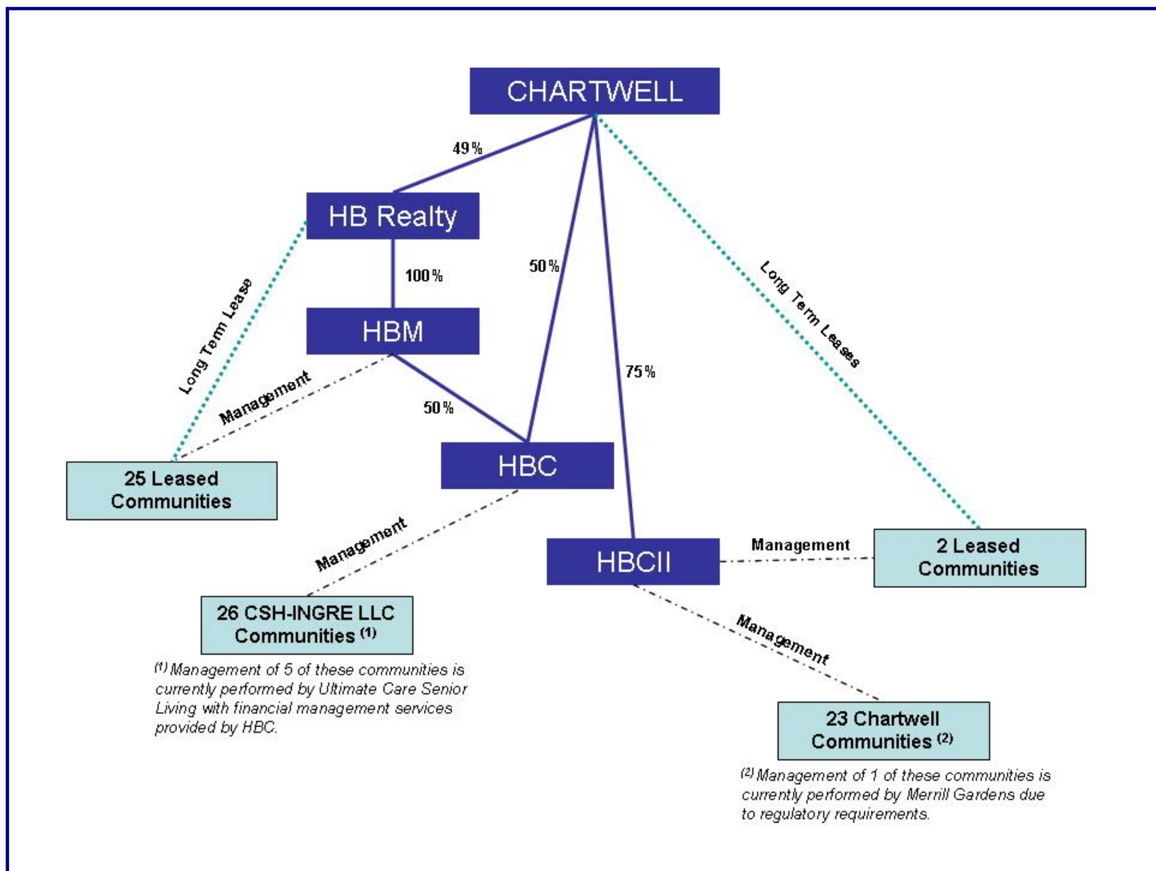
Chartwell has an option to purchase additional stabilized seniors housing communities under the terms of a development program carried out by Spectrum Seniors Holdings LP ("Spectrum") formerly Spectrum Seniors Housing Development LP, a development entity in which certain of the Trust's senior executives have an ownership 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 suite occupancy rate of 90% or greater for the three preceding calendar months. As part of its seniors housing operations and development management business, Chartwell also provides management, financing, and advisory services, for a fee, to Spectrum and its joint venture partners in respect of their communities and development program.

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

Chartwell also provides due diligence project management and asset management services for a fee to ING Real Estate Investment Management Australia PTY Limited (collectively with its affiliates: "ING"). ING is Chartwell's strategic financial partner in acquisitions of seniors housing communities in North America. At June 30, 2008, Chartwell and ING each held a 50% interest in CSH-INGRE LLC ("CSH-INGRE"), which owned 26 seniors housing communities (4,636 suites) in the United States, In addition, Chartwell and ING each owned a 50% interest in eight seniors housing communities (1,384 suites) in Canada.

During Q1 2007, Chartwell acquired a 49% interest in Horizon Bay Realty LLC ("HB Realty"), which, through its subsidiaries, owns leased interests in 25 seniors housing communities (5,632 suites). In addition, one of its subsidiaries – Horizon Bay Management LLC ("HBM") - owns long-term management contracts for these 25 communities and a 50% interest in Horizon Bay Chartwell LLC ("HBC"), a manager for CSH-INGRE properties in the United States. The remaining 50% interest in HBC is owned directly by Chartwell. Chartwell's wholly owned properties in the United States are managed by HBCII Manager LLC ("HBCII"). Chartwell owns a 75% interest in HBCII.

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



Owned and Leased Property Portfolio

The following table summarizes the composition of Chartwell's real estate portfolio of owned and leased communities as at June 30, 2008 and June 30, 2007:

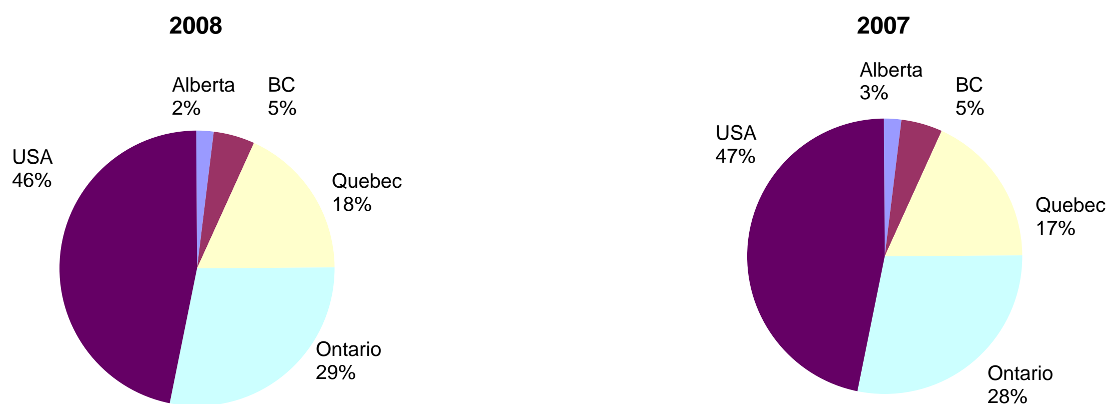
	June 30, 2008[(1)(3)]	June 30, 2007[(2)]
Number of suites	28,389	27,446
Number of communities	202	198

(1) Includes 41 communities (7,415 suites) in which Chartwell holds a 50% interest, and one community (53 suites) in which Chartwell holds a 39% interest, 25 communities (5,632 suites) in which Chartwell holds a 49% leased interest, and two communities (233 suites) in which Chartwell holds a 100% leased interest.

(2) Includes 36 communities (6,245 suites) in which Chartwell holds a 50% interest and one community (53 suites) in which Chartwell owns a 39% interest and 25 communities (5,632 suites) in which Chartwell holds a 49% leased interest, and two communities (233 suites) in which Chartwell holds a 100% leased interest.

(3) Includes 446 suites under development at six existing communities.

Composition of Portfolio of Owned and Leased Suites by Geographical Location at June 30



2008 Outlook and Significant Events

Over the last four years Chartwell has achieved an enviable presence in the North American seniors housing market. We have built or acquired a portfolio of properties with significant competitive advantages: our portfolio is relatively new – most of our properties are less than 10 years old; our portfolio is diversified geographically; and a large portion of our assets are independent supportive living, appealing to the leading edge of baby boomers. Chartwell's growth has also been based on the strong fundamentals present in the North American seniors housing market. Significant demand is being driven by powerful demographic trends that are resulting in the seniors population growing at approximately three to four times the general population.

Recognizing that Chartwell has reached a significant size and critical mass, our main objective is to generate strong and sustainable organic growth on an annual basis, as measured by increased Adjusted Funds from Operations ("AFFO") per unit, through a continued focus on the efficient management of our operations and assets, and ensuring we capture all of the available economies of scale and operating synergies resulting from our growth while maintaining and improving upon our high levels of service to residents.

Updated 2008 Outlook ♣

For the first six months of 2008 we have achieved our AFFO per unit targets and generated strong same property NOI growth. However, due to uncertain economic and market conditions in certain areas, and delays in acquisitions and recognition of development fees as described below, we expect that our growth rate in AFFO per unit and same property NOI in the latter half of 2008 will be lower than originally estimated.

Our previous 2008 Outlook estimated pre-tax AFFO per unit of between $0.77 to $0.79. We now expect 2008 pre-tax AFFO per unit diluted for the second half of 2008 will be in the range of $0.35 to $0.37 resulting in 2008 pre-tax AFFO per unit diluted being $0.69 to $0.71. The following factors have contributed to the revision of our guidance:

- **We have achieved strong growth in same property NOI from our U.S. operations. Our occupancies are higher than industry averages and our management team continues to be focused on implementing innovative marketing strategies and tightly controlling labour and supply costs. However, weak economic, housing and credit market conditions in the U.S. began to affect our occupancies in June as it became more difficult to replace residents on normal turnover. We typically experience a seasonal occupancy dip during the summer months with normal rebounding in mid-September through November. However, with the uncertain economic climate in the U.S., we are less confident of continued growth in the second half of the year.**

  We expect to realize same property NOI growth in our U.S. operations over the previous year on an annual basis. However, our initial occupancy targets were approximately 95% and we are now expecting occupancies to stabilize at approximately 93.0% in the second half of 2008.

  Our U.S. management team has sourced new development management contracts and continues to explore further opportunities to augment future earnings in our U.S. management operations.

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

- **Our Canadian platforms continue to perform strongly compared to historic results and are achieving or exceeding our expectations, with the exception of certain properties in our Quebec platform.**

  Delays in completing the repositioning of certain of our Quebec projects combined with other issues beyond normal market and competitive factors, including construction activity related to both renovations and new developments in our development pipeline, have affected our occupancies in Quebec in the first six months of 2008.

  In addition, in certain local markets in Quebec challenging conditions have persisted for longer than anticipated. Consequently, we now expect that the results of our Quebec platform will not achieve our targets for the last half of 2008.

  The vast majority of newly renovated suites are now available, more competitive, and in lease up. As construction activity finishes and turnover stabilizes we anticipate gradual recovery of the current occupancy losses starting in the fall with full recovery by the end of 2009.

- **We continue working with Spectrum and their joint venture partners on a number of development opportunities. However, while Spectrum is pursuing its corporate reorganization, commencement of these projects and recognition of related development fees has been delayed for longer than we originally anticipated.**

  We believe that once the Spectrum reorganization process is complete Chartwell will resume its development activities at a moderate pace.

- **In addition, acquisitions of certain Spectrum and Melior development projects that we anticipated closing in 2008 are now expected to be delayed beyond 2008. Five Spectrum projects have achieved stabilization and are currently being evaluated by Chartwell for purchase and an additional five projects are nearing stabilization.**

Strong performance in our Canadian properties outside of Quebec combined with reducing our G&A spend compared to plan are expected to partially offset the challenges we noted above, resulting in overall AFFO for the second half of 2008 expected to remain relatively flat compared to the last half of 2007.

The following events have had a significant effect on our financial results in 2008 or may be expected to affect our results in the future.

Acquisitions

The following table summarizes acquisitions completed in the first six months of 2008:

($millions)	Q1 2008	Q2 2008	2008 YTD
# Communities	1	2 [1]	3
# Suites	173	144 [1]	317
Purchase price (including closing costs)	29.5	11.5	41.0
Financed as follows:			
Mortgage debt assumed	-	7.8	7.8
Discharge of mezzanine loan receivable	5.9	-	5.9
Cash	23.6	3.7	27.3
Total	29.5 [2]	11.5	41.0

(1) Includes 80 suites for which Chartwell acquired the remaining 50% interest.
(2) Subsequent to closing, Chartwell arranged mortgage financing on this acquisition in the amount of $21.8 million. The loan bears an interest rate of 4.71% and matures in April 2038.

In 2007, Chartwell completed acquisitions of varying interests in 72 seniors housing communities. The aggregate asset value of these acquisitions and related management contracts amounted to approximately $911.0 million. The following summarizes significant portfolio acquisitions completed during 2007:

- On June 30, 2007, Chartwell and ING acquired the Regency portfolio consisting of eight long-term care communities (1,384 suites). In addition, Chartwell acquired management contracts for six other communities. Chartwell's share of the 50% interest in the LTC communities and the 100% interest in the management contracts amounted to $146.6 million.

- On April 30, 2007, Chartwell also acquired a 100% interest in 22 seniors housing communities in the United States and a 100% leased interest in two other communities (collectively "Merrill Gardens portfolio") totalling 2,238 suites. The total purchase price for the Merrill Gardens portfolio amounted to approximately $385.0 million (U.S.$346.9 million).

- On February 21, 2007, CSH-INGRE LLC acquired five seniors housing communities (640 suites) in the United States (the "Bristal portfolio"). Chartwell's share of the purchase price amounted to $170.0 million (U.S.$145.8 million).

- On January 1, 2007, Chartwell acquired a 49% interest in HB Realty, which, through its subsidiaries, owns leased interests in 25 seniors housing communities (the "HCPI Leased Properties" (5,631 suites)). As we acquired these leases on the first day of 2007, the HCPI Leased Properties are included in our same property portfolio in 2008. In addition, as described in the "Business Overview" section of this MD&A, Chartwell acquired an interest in the management contracts for these properties.

Acquisitions

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
2008 Acquisitions:					
1.	Cite Jardin IIIA	Gatineau, QC	Retirement	January 9, 2008	173
2.	Chateau Gardens Elmira	Elmira, ON	Retirement	April 24, 2008	64
3.	Brookside Manor [1]	Kanata, ON	Retirement	May 29, 2008	80
Total 2008 Acquisitions					317

[1] During Q2, Chartwell acquired the remaining 50% interest in this community.

#	Community	Location	Type	Effective Date of Acquisition	Beds/Suites
2007 Acquisitions:					
1.-25	HB Realty[1]	U.S. (various locations)	Retirement	January 1, 2007	5,631
26.	Bankside Terrace	Kitchener, ON	Retirement	February 1, 2007	91
27.	Queens Square Terrace	Cambridge, ON	Retirement	February 1, 2007	83
28.	Terrace on the Square	Waterloo, ON	Retirement	February 1, 2007	92
29.	Wellington Park Terrace	Guelph, ON	Retirement	February 1, 2007	116
30.	The Bristal at East Meadow[2]	East Meadow, NY	Retirement	February 21, 2007	121
31.	The Bristal at Westbury[2]	Westberg, NY	Retirement	February 21, 2007	140
32.	The Bristal at North Hill[2]	North Hills, NY	Retirement	February 21, 2007	141
33.	The Bristal at North Woodmere[2]	North Woodmere, NY	Retirement	February 21, 2007	118
34.	The Bristal at Massapequa[2]	Massapequa, NY	Retirement	February 21, 2007	120
35.	Trilogy LTC Residence	Scarborough, ON	Long-term care	February 23, 2007	197
36.	Conservatory Pond Retirement Residence[3]	Kingston, ON	Retirement	March 29, 2007	85
37.	Jardins de la Gare	Saint-Hyacinthe, QC	Retirement	April 27, 2007	296
38.	Merrill Gardens at Northport	Northport, AL	Retirement	April 30, 2007	78
39.	Merrill Gardens at Apache Junction	Apache Junction, AZ	Retirement	April 30, 2007	123
40.	Merrill Gardens at Chandler	Chandler, AZ	Retirement	April 30, 2007	88
41.	Merrill Gardens at Altamonte Springs	Altamonte Springs, FL	Retirement	April 30, 2007	95
42.	Merrill Gardens at Lutz	Lutz, FL	Retirement	April 30, 2007	85
43.	Merrill Gardens at Orange City	Orange City, FL	Retirement	April 30, 2007	84
44.	Merrill Gardens at Port St. Lucie	Port St. Lucie, FL	Retirement	April 30, 2007	82
45.	Merrill Gardens at Sarasota	Sarasota, FL	Retirement	April 30, 2007	146
46.	Merrill Gardens at Tamarac	Tamarac, FL	Retirement	April 30, 2007	95
47.	Merrill Gardens at Vero Beach	Vero Beach, FL	Retirement	April 30, 2007	104
48.	Merrill Gardens at Carrollton	Carrollton, GA	Retirement	April 30, 2007	69
49.	Merrill Gardens at Rome	Rome, GA	Retirement	April 30, 2007	69
50.	Merrill Gardens at Bossier City	Bossier City, LA	Retirement	April 30, 2007	84
51.	Merrill Gardens at Ten Oaks	Lawton, OK	Retirement	April 30, 2007	100
52.	Merrill Gardens at The Parkview	Memphis, TN	Retirement	April 30, 2007	128
53.	Merrill Gardens at Graham	Graham, TX	Retirement	April 30, 2007	68
54.	Merrill Gardens at Grand Prairie	Grand Prairie, TX	Retirement	April 30, 2007	85
55.	Merrill Gardens at N. Richland Hills	N. Richland Hills, TX	Retirement	April 30, 2007	105
56.	Merrill Gardens at Round Rock	Austin, TX	Retirement	April 30, 2007	68
57.	Merrill Gardens at San Antonio	San Antonio, TX	Retirement	April 30, 2007	112
58.	Merrill Gardens at San Marcos	San Marcos, TX	Retirement	April 30, 2007	68
59.	Merrill Gardens at Wichita Falls	Wichita Falls, TX	Retirement	April 30, 2007	69
60.	Merrill Gardens at Clearwater[4]	Clearwater, FL	Retirement	May 31, 2007	96
61.	Merrill Gardens at Lake Orienta[4]	Altamonte Springs, FL	Retirement	May 31, 2007	137
62.	Regency Care – The WaterFord[2]	Oakville, ON	Long-term care	June 30, 2007	168
63.	Regency Care – The WenLeigh[2]	Mississauga, ON	Long-term care	June 30, 2007	161
64.	Regency Care – The WestBury[2]	Etobicoke, ON	Long-term care	June 30, 2007	187
65.	Regency Care – The WoodHaven[2]	Markham, ON	Long-term care	June 30, 2007	192
66.	Regency Care – The WynField[2]	Oshawa, ON	Long-term care	June 30, 2007	172
67.	Regency Care – The WestMount[2]	Kitchener, ON	Long-term care	June 30, 2007	160
68.	Regency Care – The WillowGrove[2]	Ancaster, ON	Long-term care	June 30, 2007	169
69.	Regency Care – The Brant Centre[2]	Burlington, ON	Long-term care	June 30, 2007	175
70.	Chateau Vincent D'Indy	Montreal, QC	Retirement	July 23, 2007	96
71.	Rouge Valley Retirement Residence[3]	Markham, ON	Retirement	July 31, 2007	88
72.	Constantia Retirement Residence[2][3]	Thornhill, ON	Retirement	November 15, 2007	121
Total 2007 Acquisitions					11,158
Total					**11,475**

[1] Chartwell acquired a 49% leased interest and related management contracts for these communities.
[2] Chartwell acquired a 50% interest in these communities.
[3] These communities were acquired from Spectrum.
[4] Chartwell acquired a leased interest in these communities.

Internal Growth Initiatives

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

Completed Internal Growth Projects

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

Project	Location	Suites	Total Cost ($million)	Debt ($million)	Construction Completion	Leased Units June 30, 2008
2007						
Birchwood Retirement Residence	Chilliwack, BC	12	2.5	2.5	Q4 2007	12
Hartford Retirement Centre	Morrisburg, ON	22	5.9	5.5	Q3 2007	20
Total 2007		34	$8.4	$8.0		32
2006						
L'Oasis	St. Jean, QC	86	14.5	10.4	Q4 2006	63
Marquis de Tracy II, Ph II[(1)]	Sorel, QC	72	10.0	7.7	Q4 2006	34
New Edinburgh Square	Ottawa, ON	16	3.6	1.0	Q1 2006	15
Total 2006		174	$28.1	$19.1		112
Total		**208**	**$36.5**	**$27.1**		**144**

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

Internal Growth Projects in Progress

There are currently six internal growth projects (446 suites) in various stages of development, as follows:

Project	Location	Suites	Estimated Total Cost ($million) *	Expected Construction Financing ($million) *	Estimated Construction Completion *
Canada					
Collegiate Heights Retirement Residence	Sault Ste. Marie, ON	28	6.7	6.0	Q3 2008
Quail Creek Retirement Centre	Renfrew, ON	34	6.3	5.0	Q2 2009
Residence Ste-Marthe	St. Hyacinthe, QC	132	14.8	10.5	Q3 2008
Manoir Pierrefonds	Montreal, QC	82	9.8	7.0	Q3 2008
Maison Herron	Dorval, QC	72	9.3	5.4	Q3 2008
Total Canada		348	$46.9	$33.9	
United States					
Gayton Terrace	Richmond, VA	98	22.1 U.S.	17.7 U.S.	Q2 2009
Total United States		98	$22.1 U.S.	$17.7 U.S.	

We are currently in the planning stage of construction of 386 suites at three Ontario and one B.C. site. In addition, we have identified further potential to add over 1,100 suites at our communities in the markets with significant demand for new seniors housing suites. We will continue our evaluation of these internal growth projects in 2008.*

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

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans:

($millions)	June 30, 2008	December 31, 2007
Gross mezzanine loans outstanding (beginning of period)	112.0	101.3
Advances in the period to Spectrum, Melior and their joint venture partners	5.6	18.3
Placement fees associated with advances in the period	-	(0.4)
Discharge of mezzanine loans on our acquisition of an interest in the related property(ies)	(5.9)	(3.8)[1]
Other repayments of mezzanine loans	-	(3.4)
Gross mezzanine loans outstanding (end of period)	111.8	112.0

(1) Relates to three properties.

Offerings of Trust Units and Convertible Debentures

On April 20, 2007, Chartwell completed a public offering of Trust Units and convertible debentures. Including the over allotment option exercised by the underwriters on May 17, 2007, Chartwell issued 16.2 million Trust Units at $14.25 per unit and $75.0 million of convertible subordinated unsecured debentures, bearing a 5.9% coupon, $16.25 conversion price and maturing on May 1, 2012, the "5.9% Convertible Debentures". The net proceeds from this offering of approximately $291.5 million, net of issue related costs of approximately $14.5 million, were used to finance certain acquisitions, to advance certain mezzanine loans and for general business purposes. Two of the properties that we had planned on acquiring with the proceeds of these offerings have not yet been completed pending either lender or regulatory approvals. We anticipate closing these acquisitions in 2008.*

Development

Chartwell's strong relationship with seniors housing developers provides a pipeline of opportunities to acquire new and fully stabilized properties, which are designed to our specifications. Since commencement of our operations, we have acquired interests in 15 new seniors housing communities representing approximately 1,317 suites in Canada from Spectrum and its joint venture partners where applicable.

At June 30, 2008, Spectrum, Melior and their joint venture partners had over 6,500 suites under development or in lease-up across Canada. Chartwell has an option to acquire these suites upon stabilization, in many cases at a discount to appraised value. While these projects are in the development and lease-up phase, we generate a revenue stream from interest and fees through our mezzanine financing program and from our development services.

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

Third-Party Management Services

At June 30, 2008, Chartwell's portfolio of managed suites included over 9,301 suites in 68 communities owned by Spectrum, Melior and other third parties. Chartwell also provides development management, asset management and due diligence project management services to ING. In addition to generating high margin fees, our third-party management business also provides us with valuable insight into specific geographic markets and creates a pipeline of potential future acquisitions.

Taxation Related Matters

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to June 22, 2007, income earned by Chartwell and distributed annually to Unitholders was not subject to tax in Chartwell, but was taxed at the individual Unitholder level. Accordingly, Chartwell did not record a provision for income taxes or future income tax assets or liabilities prior to June 22, 2007.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT" and together with the legislation, the "SIFT Rules") received royal assent. A SIFT includes certain publicly-listed or traded partnerships and trusts, such as an income trust and a real estate investment trust (a "REIT").

Under the SIFT Rules, following a transition period for SIFTs existing on October 31, 2006, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Approximately 97.7% of Chartwell's distributions in 2007 were non-taxable returns of capital.

Under the SIFT Rules, the new taxation regime does not apply to a REIT that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Chartwell does not meet the REIT Conditions and therefore is a SIFT.

A SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") is subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain safe harbour limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). On April 20, 2007, Chartwell issued equity capital in excess of these Safe Harbour Limits. Therefore, commencing in fiscal 2007, Chartwell is subject to tax on certain income.

Under the existing SIFT Rules, a flow-through subsidiary of Chartwell may also be a SIFT. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Draft legislation was released on July 14, 2008. The proposed technical amendment to the SIFT definition would definitely exclude trusts and partnerships whose equity is not publicly traded, and/or is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. Due to this uncertainty, we have provided for SIFT tax on the taxable income of this subsidiary and accordingly have recorded a current income tax provision of $0.7 million in the first six months of 2008.

Distributions

Effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions were reduced to $0.74 per unit per annum from the previous level of $1.065 per unit per annum.

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

Key Performance Indicators

Chartwell uses a number of key performance indicators for monitoring and analyzing its financial results. These key performance measures are not defined by Canadian 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, has been fundamentally beneficial to the users of the financial information, improving their understanding of the operating results of Chartwell. Management generally considers FFO to be a useful measure for reviewing Chartwell's operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

In our calculations of FFO per unit, we include the Class B Units of Chartwell Master Care LP and the FFO allocable to the related non-controlling interest.

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

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

Normalized Funds from Operations

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

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

Straight line adjustment to lease expense:
GAAP requires that operating lease expenses be recognized over the term of related leases using the straight line method. Generally, lease payments increase over time to account for inflation. As the corresponding inflationary revenue increases will only be realized in the future, we adjust for this non-cash expense in NFFO calculations.

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

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

In our calculations of NFFO per unit, we include the Class B Units of Chartwell Master Care LP and the NFFO allocable to the related non-controlling interest.

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

Adjusted Funds from Operations

Adjusted Funds from Operations (“AFFO”) is not a GAAP measure and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. AFFO as presented may not be comparable to similar measures presented by other companies. Management believes AFFO is useful in the assessment of the operating performance of Chartwell and that this measure is also useful for valuation purposes. Management calculates AFFO by adding or subtracting certain items to or from FFO as defined by REALpac, as follows:

Straight line adjustment to lease expense:
GAAP requires that operating lease expenses be recognized over the term of related leases using the straight line method. Generally, lease payments increase over time to account for inflation. As the corresponding inflationary revenue increases will only be realized in the future, we adjust for this non-cash expense in AFFO calculations.

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

Amortization of below market leases:
This non-cash item increases GAAP revenue and is commonly adjusted in AFFO calculations. On acquisition of a property, as required by GAAP, management records a liability for below market leases that exist on acquisition. This liability is amortized to revenue, as required by GAAP, over time with no effect on cash.

Principal portion of capital subsidy receivable:
This item represents a portion of the long-term (maximum 20-year) cash flow stream provided by Ontario Ministry of Health and Long-Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

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

Amortization of debt mark to market adjustments, including accretion on the convertible debentures, and amortization of financing costs:
Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

Financing cost reserve:
In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our mortgage portfolio.

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

In our calculations of AFFO per unit, we include the Class B Units of Chartwell Master Care LP and the AFFO allocable to the related non-controlling interest.

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

Net Operating Income

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

Same Property Performance

The Trust evaluates its financial performance by analyzing a same property portfolio. In this MD&A, same property statistics refer to properties Chartwell owned or leased continuously since January 1, 2007 which is comprised as follows: 89 Canadian retirement properties; 17 Canadian long-term care; and, 46 (21 owned and 25 leased) U.S. retirement communities.

Operating Margins

Operating margins are calculated as revenue less direct operating expenses divided by revenue. This measure is used as an indicator of segment performance as management monitors its ability to translate changes in revenue into net operating income. However, as operating margins typically vary by the level of care offered, the mix of our portfolio's various levels of care needs to be considered when conducting performance analysis. In addition, as higher acuity levels of service often have lower margins, this can affect this performance measure while these services may add incremental NOI.

Occupancy Percentage

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

General, Administrative and Trust Expenses as a Percentage of Revenue

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

Consolidated Results of Operations

Overview of Consolidated Results of Operations

Same Property Portfolio Highlights: [1]

Operating performance continues to be strong. Same Property NOI increased $2.7 million or 6.9% for Q2 2008 compared to Q2 2007 and $5.0 million or 6.5% for 2008 YTD compared to 2007 YTD.

The successful execution of our 2008 business operating strategies, including taking advantage of the opportunities the size of our portfolio provides both in managing our supply chain and in implementing best practice staffing and operating models, is delivering improved results, both financially and by increasing the quality of the products and services we deliver, across our operating platforms for Q2 2008 compared to Q2 2007 as follows:

- Our same property Canadian Retirement Portfolio occupancies are high at 92.2% excluding internal growth suites, average increases achieved have been between 2% and 6%, and same property NOI growth amounted to $1.1 million or 4.8%. In addition, our yield management program continues to see lift on turnover in excess of inflation rates for existing residents.
- In our U.S. same property portfolio, regular annual rent increases, increased amortization of deferred community fees on suite turnover, and tight management of expenses have offset the slight decrease in occupancy to 92.8% or 0.3 percentage points resulting in improved U.S. same property NOI of U.S.$1.6 million or 11.8%. Although our occupancies continue exceeding industry benchmarks,

[1] Note: statistics in this section exclude the effects of foreign exchange translation.

given the weakness in the U.S economy, housing and credit markets as well as recent occupancy trends, we do not expect to maintain this high level of same property NOI growth in the second half of 2008.*

Overall, occupancy was high at 92.3% in Q2 2008 flat compared to 92.3% in Q2 2007. Excluding internal growth suites, occupancy improved to 93.0% or 0.2 percentage points compared to Q2 2007.

Same property portfolio operating margins continued to improve and were 33.2% in Q2 2008, an increase of 0.9 percentage points compared to Q2 2007.

In addition to the trends generating improved same property NOI growth for Q2 2008 compared to Q2 2007, same property NOI growth for 2008 YTD compared to 2007 YTD has been positively affected by the realization of a refund of insurance premiums based on favourable claims experience. However, the costs associated with the additional day in 2008 YTD (February 29) increased direct operating expenses by approximately $0.7 million compared to 2007 YTD.

Acquisition Portfolio Highlights:

In Q2 2008, acquisitions delivered incremental NOI of $4.8 million compared to Q2 2007 and $16.7 million for 2008 YTD compared to 2007 YTD, excluding the impact of foreign exchange.

General, Administrative and Trust Expenses:

General, administrative and trust ("G&A") expenses decreased as a percentage of revenues at 2.9% of revenues for Q2 2008 before costs attributable to the Board of Directors' Special Committee and related advisory fees. In absolute dollars, G&A increased by $0.2 million or 3.4% in Q2 2008 compared to Q2 2007 primarily as a result of $0.4 million of severance expenses, offset by lower Special Committee and related advisory costs. Excluding Special Committee and related advisory costs, G&A expenses increased for 2008 YTD compared to 2007 YTD due to the severances noted above combined with increased staffing costs to support our significant growth activity in previous years.

Per Unit Analysis:

- AFFO for Q2 2008 was $0.17 per unit diluted flat compared to Q2 2007. Strong performance in our same property portfolio delivered improved NOI of $2.7 million or $0.03 of additional AFFO per unit diluted. Improved operating performance was offset by the following:
  - Lower mezzanine loan interest income resulting from adjustments to placement fee amortization due to delays in estimated stabilization dates of certain development projects reduced AFFO by $1.6 million or $0.02 per unit diluted for Q2 2008 compared to Q2 2007. Placement fees received at the time of the loan advance are amortized to income over the expected term of the loan.
  - Lower invested cash balances reduced bank interest income by $1.4 million or $0.01 per unit diluted.

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

- AFFO for 2008 YTD was $0.33 per unit diluted compared to $0.35 per unit diluted for 2007 YTD. Our same property portfolio delivered improved NOI of $5.0 million or $0.05 of additional AFFO per unit diluted. Improved operating performance was offset by the following:
  - Amortization of placement fees decreased by $2.0 million or $0.02 per unit diluted in 2008 YTD compared to 2007 YTD.
  - Due diligence project management fees earned from ING decreased by $1.5 million and development fees earned from Spectrum decreased by $0.6 million or, together, $0.02 per unit diluted.
  - Lower invested cash balances reduced bank interest income by $1.3 million or $0.01 per unit diluted.
  - As described in the "Significant Events" section of this MD&A, in 2008, one of Chartwell's subsidiaries may be subject to SIFT tax. Accordingly, we have recorded a provision for current income tax expense of $0.7 million or $0.01 per unit diluted as a SIFT tax provision for which there is not a comparable amount in 2007 YTD.

- FFO diluted per unit was $0.16 for Q2 2008 an increase of $0.05 cents compared to $0.11 for Q2 2007. For 2008 YTD, FFO diluted per unit was $0.35 or $0.07 per unit diluted higher than YTD 2007. FFO diluted per unit is described fully in the "Funds from Operations" section of this MD&A.
- Normalized FFO, which excludes the effect of foreign exchange gains and losses on intercompany debt, straight line lease expense adjustments and current SIFT income tax expense, was $0.18 per unit diluted for Q2 2008, compared to $0.19 per unit diluted for Q2 2007, a decrease of $0.01 per unit diluted. For 2008 YTD, Normalized FFO diluted per unit was $0.37 or $0.02 per unit diluted lower than 2007 YTD.
- Net loss decreased to $0.14 per unit diluted for Q2 2008 compared to $0.36 per unit diluted for Q2 2007 and decreased to $0.27 per unit diluted for 2008 YTD from $0.50 per unit diluted in 2007 YTD.

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

($000s, except per unit amounts, occupancy rates, and operating margins)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Property revenue	167,920	147,105	20,815	334,307	275,560	58,747
Total revenues	174,698	156,299	18,399	349,047	294,641	54,406
Net loss	(12,872)	(31,153)	18,281	(24,393)	(40,283)	15,890
Net loss per unit (basic and diluted)	(0.14)	(0.36)	0.22	(0.27)	(0.50)	0.23
Distributions declared	18,436	26,186	(7,750)	42,220	48,181	(5,961)
Distributions declared per unit	0.19	0.27	(0.08)	0.42	0.53	(0.11)
FFO [(1)]	16,524	10,785	5,739	35,424	24,699	10,725
Diluted FFO per unit	0.16	0.11	0.05	0.35	0.28	0.07
Normalized FFO [(2)]	18,543	18,113	430	37,245	35,004	2,241
Diluted Normalized FFO per unit	0.18	0.19	(0.01)	0.37	0.39	(0.02)
AFFO [(3)]	17,071	16,123	948	33,084	31,128	1,956
Diluted AFFO per unit	0.17	0.17	-	0.33	0.35	(0.02)
Weighted average occupancy rate:						
Same property portfolio	92.3%	92.3%	-	92.5%	92.4%	0.1pp[(4)]
Same property portfolio excluding internal growth suites	93.0%	92.8%	0.2pp	93.2%	92.8%	0.4pp
Operating margin – same property portfolio	33.2%	32.3%	0.9pp	32.6%	31.9%	0.7pp
Weighted average number of units including Class B Units of Chartwell Master Care LP [(5)]:						
Basic	98,402,259	93,418,276	4,983,983	98,224,995	87,199,560	11,025,435
Diluted (includes LTIP)	101,219,260	95,903,843	5,315,417	100,794,363	89,654,177	11,140,186

(1) Refer to the “Non-GAAP Measures - Funds from Operations” section of this MD&A for the reconciliation of FFO to Net Loss
(2) Refer to the “Key Performance Indicators - Normalized Funds from Operations” section of this MD&A for the details of the NFFO calculation.
(3) Refer to the “Key Performance Indicators - Adjusted Funds from Operations” section of this MD&A for the details of the AFFO calculation.
(4) Percentage points.
(5) Refer to the “Non-GAAP Measures - Funds from Operations; Normalized Funds from Operations; and Adjusted Funds from Operations” sections of this MD&A.

Summary of Property Revenue

($000s, except occupancy rates)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Same property[1]	126,294	121,486	4,808	251,869	241,745	10,124
Acquisitions[1]	44,064	23,137	20,927	87,602	27,514	60,088
Foreign exchange on U.S. dollar revenue	631	5,295	(4,665)	892	11,991	(11,099)
Equity accounted VIEs	(3,067)	(2,813)	(255)	(6,056)	(5,690)	(366)
Total property revenue	167,920	147,105	20,815	334,307	275,560	58,747
Weighted average occupancy same property portfolio	92.3%	92.3%	-	92.5%	92.4%	0.1pp
Weighted average occupancy same property portfolio excluding internal growth suites	93.0%	92.8%	0.2pp	93.2%	92.8%	0.4pp

(1) Excluding the effect of foreign exchange on U.S. dollar revenue

Total property revenue increased by 14.1% in Q2 2008 compared to Q2 2007 and 21.3% for 2008 YTD compared to 2007 YTD due to contributions from acquisitions completed subsequent to January 1, 2007 and same property revenue growth.

Same property revenue increased by approximately $4.8 million or 4.0% in Q2 2008 compared to Q2 2007 and $10.1 million or 4.2% for 2008 YTD compared to 2007 YTD. We continue to drive revenue growth with our proven strategies as follows:

- Yield management programs in the Canadian retirement home portfolio to establish increased market based rates on suite turnover.
- Regular annual rent increases that are competitive to local market conditions.
- The addition of new services for residents at some of Chartwell's communities.
- Maximizing asset performance through investment in internal growth projects.

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

Weighted average occupancy rates in the same property portfolio excluding internal growth suites improved to 93.0% in Q2 2008 from 92.8% in Q2 2007, a 0.2 percentage point increase. Higher occupancies have also been achieved for the first six months of 2008 compared to 2007, with weighted average occupancy up to 93.2% for 2008 YTD.

Summary of Direct Operating Expenses

($000s)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Same property[(1)]	84,386	82,273	2,113	169,819	164,737	5,082
Acquisitions[(1)]	31,424	15,341	16,083	62,156	18,808	43,348
Foreign exchange on U.S. dollar expenses	394	3,276	(2,882)	560	7,549	(6,989)
Equity accounted VIEs	(2,076)	(1,882)	(194)	(4,209)	(3,878)	(331)
Total direct operating expenses – properties	114,128	99,008	15,120	228,326	187,216	41,110
Direct operating expenses – management operations	1,027	832	195	2,050	1,890	160
Total direct operating expenses	115,155	99,840	15,315	230,376	189,106	41,270

(1) Excluding the effect of foreign exchange on U.S. dollar expenses

Total direct operating expenses increased by 15.3% in Q2 2008 compared to Q2 2007 and 22.0% for 2008 YTD compared to 2007 YTD primarily due to additional expenses from acquisitions completed subsequent to January 1, 2007.

Same property direct operating expenses increased by approximately $2.1 million or 2.6% in Q2 2008 as compared to Q2 2007 and 3.1% for 2008 YTD compared to 2007 YTD.

We have achieved below inflationary direct operating expense increases primarily as a result of ongoing cost management programs and tight controls on labour costs. The comparison of Q2 2008 to Q2 2007 is positively affected by certain Canadian statutory holidays in 2008 that fell in Q1 2008 (Easter).

In addition to the trends experienced in Q2 2008, our year to date results compared to the same period in 2007 were affected by the following factors:

- The first six months of 2008 have one more day (February 29) than the same period in 2007. As a result many of our variable costs, primarily staffing, increased by approximately $0.7 million without a corresponding increase in rent which is generally a set monthly fee.
- In our U.S. operations, we benefited from a refund of premiums for general and professional liability of approximately $0.6 million during Q1 2008 as a result of favourable claims experience during the policy period.

General, Administrative and Trust Expenses

($000s, except percentage of revenue)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
General, administrative and trust expenses ("G&A")	5,101	4,614	487	10,101	9,048	1,053
Special Committee and related advisory fees	201	515	(314)	401	1,015	(614)
Total G&A per financial statements	5,302	5,129	173	10,502	10,063	439
As % of revenue:						
Including Special Committee Costs	3.0%	3.3%	(0.3pp)	3.0%	3.4%	(0.4pp)
Excluding Special Committee Costs	2.9%	3.0%	(0.1pp)	2.9%	3.1%	(0.2pp)

G&A excluding the costs of the Special Committee increased in Q2 2008 as compared to Q2 2007 as a result of severance costs of $0.4 million. For 2008 YTD, G&A costs, excluding the costs of the Special Committee, increased 10.6%, which is due to the severances combined with costs, primarily staffing, to support our significant growth in 2007.

As a percentage of total revenues, G&A excluding Special Committee costs decreased to 2.9% for Q2 2008 and 2008 YTD. This is primarily due to significant growth in total revenues and management of our infrastructure costs.

Including Special Committee costs, G&A increased $0.2 million for Q2 2008 compared to Q2 2007 and $0.4 million for 2008 YTD compared to 2007 YTD.

Interest and Property Lease Expense

($000s)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Interest Expense						
Mortgages and loans payable	21,257	19,366	1,891	41,964	33,778	8,186
Convertible debentures	2,981	2,745	236	5,960	4,608	1,352
Operating credit facility and other	18	104	(86)	83	52	31
	24,256	22,215	2,041	48,007	38,438	9,569
Accretion adjustment to convertible debenture liability	685	233	452	1,356	517	839
Amortization of debt mark-to-market adjustments arising on acquisition	(304)	(210)	(94)	(582)	(651)	69
Amortization of financing costs	1,204	1,188	16	2,412	2,264	148
Total Interest Expense:	25,841	23,426	2,415	51,193	40,568	10,625
Property Lease Expense						
Contractual lease payments for the period	9,746	9,736	10	19,514	19,772	(258)
Adjustment to record lease expense on a straight line basis over the lease term	1,593	2,049	(456)	3,246	4,400	(1,154)
Total Property Lease Expense	11,339	11,785	(446)	22,760	24,172	(1,412)

The increase in interest expense is consistent with the growth in Chartwell's debt portfolio. Mortgages payable increased significantly through the first six months of 2007 primarily due to mortgages assumed on the acquisition of properties.

In addition, Chartwell had approximately $75.0 million of 5.9% subordinated convertible debentures outstanding in 2007 that were not issued until April 20, 2007 which results in increased interest expense in Q2 2008 compared to Q2 2007 and in 2008 YTD compared to 2007 YTD.

Contractual property lease expense remained flat compared to Q2 2007 primarily due to a decrease from foreign exchange translation offset by an increase in contractual lease payments of $0.1 million compared to Q2 2007. The increased payments relate to capital improvements in excess of the replacement reserve required by the lease. These trends are consistent with the year to date results.

Mezzanine Loans and Interest Income

($000s)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Gross mezzanine loan balances outstanding (end of the period)				111,781	109,260	2,521
Fees net of costs recorded as a reduction of mezzanine loan balances				(4,937)	(3,463)	(1,474)
Net mezzanine loan receivable				106,844	105,797	1,047
Mezzanine loan interest based on gross loan balances	2,980	2,933	47	5,873	5,783	90
Effective yield adjustments for:						
Placement Fees integral to lending activities	(300)	1,319	(1,619)	(15)	2,008	(2,023)
Legal costs integral to lending activities	(262)	(201)	(61)	(412)	(383)	(29)
Total Mezzanine Loan Interest Income	2,418	4,051	(1,633)	5,446	7,408	(1,962)

Mezzanine loan interest decreased by $1.6 million and $2.0 million in Q2 2008 as compared to Q2 2007 and for 2008 YTD compared to 2007 YTD, respectively. Mezzanine loan interest and related placement fees are recognized in income using the effective interest rate method of accounting for interest expense. Under this method, we update our expectations for targeted stabilization dates of the underlying development projects and re-discount the expected cash flows for the life of the project over the revised expected time to complete using the effective interest rate. Delays in expected stabilization dates of certain of the properties resulted in a reduction in revenue both for Q2 2008 compared to Q2 2007 and for 2008 YTD compared to 2007 YTD.

Other Items

($000s)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Bank interest and other income	677	2,317	(1,640)	1,939	3,687	(1,748)
Below market lease amortization revenue	434	410	24	912	823	89
Gain/(Loss) on sale of assets	(102)	320	(422)	(94)	320	(414)
Write down of assets	-	(172)	172	-	(172)	172
Unrealized / realized gains and losses on derivative financial instruments and unrealized foreign exchange gains and losses	(559)	(5,279)	4,720	2,290	(5,905)	8,195
Depreciation of properties	(17,042)	(14,184)	(2,858)	(33,510)	(26,024)	(7,486)
Amortization of limited life intangible assets	(13,149)	(13,685)	536	(27,743)	(25,692)	(2,051)
Current income tax (expense) recovery	133	-	133	(866)	-	(866)
Future income tax (expense) recovery	-	(16,389)	16,389	(237)	(16,389)	16,152
Non-controlling interest	786	2,117	(1,331)	1,551	2,847	(1,307)
Net loss	(12,872)	(31,153)	18,281	(24,393)	(40,283)	15,890

Bank Interest and Other Income

The decrease in bank interest and other income for Q2 2008 compared to Q2 2007 and for 2008 YTD compared to 2007 YTD is primarily due to lower invested cash balances and non-property miscellaneous income in the 2008 comparative period.

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

Chartwell recorded an unrealized foreign exchange loss of $0.6 million for Q2 2008 and an unrealized foreign exchange gain of $2.3 million for 2008 YTD. Of these amounts, an unrealized foreign exchange loss of $0.5 million for Q2 2008 and an unrealized foreign exchange gain of $1.9 million for 2008 YTD related to the intercompany cross border U.S. dollar denominated loans receivable and payable used by Chartwell to finance its operations in a tax efficient manner. At June 30, 2008, Chartwell had net loans outstanding of approximately U.S.$51.0 million from our U.S. subsidiaries. Although the principal amount of this debt eliminates on consolidation, unrealized foreign exchange gains and losses are required to be recorded in income under GAAP.

In addition, included in these amounts are unrealized gains and losses related to the fluctuation in the redemption value of certain liabilities of Chartwell's subsidiaries and to the holdings of U.S. dollar denominated cash.

Depreciation and Amortization

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

Current and Future Income Tax (Expense) Recovery

Under the SIFT Rules, Chartwell became subject to tax on certain income beginning in 2007 as described in the "Significant Events" section of this MD&A. During Q2 2008, we recorded a future income tax expense of $nil ($0.2 million for 2008 YTD). The provision for future income tax expense relates to the temporary differences between the carrying amounts and tax bases of assets and liabilities, including those that are expected to reverse on or after June 30, 2008. These temporary differences are tax effected using the estimated substantively enacted SIFT tax rate at the time that these differences are expected to reverse.

As described in the "Significant Events" section of this MD&A, on July 14, 2008, the Department of Finance issued draft legislation which described potential changes in the determination of which legal entities are considered SIFTs. The clarifications set out in the draft legislation could result in a subsidiary partnership of Chartwell REIT being considered to be a SIFT. Consequently, Chartwell has recorded a provision for current income tax expense of approximately $0.7 million related to SIFT income taxes for the six months ended June 30, 2008. During Q2 2008, we revised our estimate of potential current tax expense downward by $0.2 million and, accordingly, reduced our provision.

Net Loss

Net loss for Q2 2008 decreased in comparison to Q2 2007 by $18.3 million and by $16.1 million for 2008 YTD compared to 2007 YTD primarily due to the initial provision for future income tax expense which was recorded in Q2 2007 and positive contributions from property income compared to prior periods. This was offset by increased depreciation and amortization, interest and lease expenses. In addition to the trends affecting the comparison of Q2 2008 to Q2 2007, 2008 YTD compared to 2007 YTD was affected by the SIFT tax provision for current income tax expense.

Summary of Results of Operations by Division

The following section provided an analysis of the operating performance of each of our operating segments for Q2 2008 compared to Q2 2007.

Canadian Retirement Operations

The following table presents the results of operations of our Canadian retirement operations segment.

($000s, except occupancy rates and operating margins)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	58,001	56,035	1,966	115,847	111,827	4,020
Equity accounted VIEs	3,067	2,813	254	6,056	5,690	366
Total Same Property	61,068	58,848	2,220	121,903	117,517	4,386
Acquisitions	7,432	3,250	4,182	14,811	4,478	10,333
Total	68,500	62,098	6,402	136,714	121,995	14,719
Direct Operating Expenses						
Same property	35,526	34,578	948	72,202	69,785	2,417
Equity accounted VIEs	2,076	1,882	194	4,209	3,878	331
Total Same Property	37,602	36,460	1,142	76,411	73,663	2,748
Acquisitions	4,621	2,105	2,516	9,044	2,784	6,260
Total	42,223	38,565	3,658	85,455	76,447	9,008
Net operating income						
Same property	22,475	21,457	1,018	43,645	42,042	1,603
Equity accounted VIEs	991	931	60	1,847	1,812	35
Total Same Property	23,466	22,388	1,078	45,492	43,854	1,638
Acquisitions	2,811	1,145	1,666	5,767	1,694	4,073
Total Net Operating Income	26,277	23,533	2,744	51,259	45,548	5,711
Overall operating margins	38.4%	37.9%	0.5pp	37.5%	37.3%	0.2pp
Same property statistics:						
Operating margins	38.4%	38.0%	0.4pp	37.3%	37.3%	(0.0pp)
Weighted average occupancy rate	91.2%	90.9%	0.3pp	91.4%	91.5%	(0.1pp)
Weighted average occupancy rate excluding internal growth suites	92.2%	91.6%	0.6pp	92.4%	92.2%	0.2pp

Same property NOI increased by 4.8% in Q2 2008 compared to Q2 2007 due to revenue growth, contributions from completed internal growth projects, and benefits yielded from the new cost management programs that we began implementing in mid-2007. Growth in our Canadian retirement properties outside Quebec exceeded 6%. Significant renovation and construction activity in many of our Quebec properties reduced occupancy while suites were out of inventory and as we normally experience temporary occupancy declines while the building is undergoing renovation.

Same property revenues increased by 3.8% in Q2 2008 as compared to Q2 2007 as we continue achieving regular annual increases of between 2% and 6%, the continued implementation of yield management programs to establish increased market based rates on suite turnover, and higher contribution from the internal growth suites.

Weighted average occupancy rates excluding internal growth suites in lease-up increased slightly to 92.2% in Q2 2008 from 91.6% in Q2 2007, or 0.6 percentage points.

Same property operating expenses increased by 3.1% in Q2 2008 compared to Q2 2007.

Overall operating margins increased by 0.5 percentage points for Q2 2008 compared to Q2 2007. Same property operating margins increased in Q2 2008 compared to Q2 2007 by 0.4 percentage points.

Acquisitions completed subsequent to January 1, 2007 contributed $2.8 million of NOI in Q2 2008.

Canadian Long-Term Care Operations

The following table presents results of operations of our Canadian long-term care operating segment.

($000s, except occupancy rates and operating margins)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	26,175	25,605	570	51,926	50,297	1,629
Acquisitions	13,319	2,764	10,555	26,302	3,866	22,436
Total revenues	39,494	28,369	11,125	78,228	54,163	24,065
Direct Operating Expenses						
Same property	23,003	22,438	565	46,070	44,543	1,527
Acquisitions	11,156	2,366	8,790	22,276	3,329	18,947
Total expenses	34,159	24,804	9,355	68,346	47,872	20,474
Net operating income						
Same property	3,172	3,167	5	5,856	5,754	102
Acquisitions	2,163	398	1,765	4,026	537	3,489
Total Net Operating Income	5,335	3,565	1,770	9,882	6,291	3,591
Overall operating margins	13.5%	12.6%	0.9pp	12.6%	11.6%	1.0pp
Same property statistics:						
Operating margins	12.1%	12.4%	(0.3pp)	11.3%	11.4%	(0.1pp)
Weighted average occupancy rate	96.9%	98.1%	(1.2pp)	97.2%	96.9%	0.3pp

Same property NOI remained flat for Q2 2008 compared to Q2 2007. Excluding internal growth properties, occupancies improved in Q2 2008 which combined with savings realized from the implementation of new cost management programs resulted in increased NOI. However, in one of our long-term care properties, Manoir Pierrefonds, we have taken 25 units out of inventory to allow for our internal growth project to proceed. We expect to return these units to available inventory in the latter half of 2008.

Acquisitions completed subsequent to January 1, 2007 provided an additional $2.2 million of NOI in Q2 2008.

Operating margin in the same property portfolio was 12.1% in Q2 2008, a decrease of 0.3 percentage points over Q2 2007 which is primarily a result of increased flow through revenue from government funding which does not contribute incremental NOI as it is fully offset by the related expenditures, combined with temporary reduced contribution from the Manoir Pierrefonds internal growth project.

Weighted average occupancies in the same property portfolio are at 96.9% for Q2 2008 reflecting a 1.2 percentage point decrease over the same period in Q2 2007 which is a result of the internal growth activities at Manoir Pierrefonds described above. Occupancy in the Ontario long-term care communities exceeded 97% for 2008 YTD in all properties. As a result, these communities receive funding as though fully occupied.

U.S. Operations

The following table presents the results of operations of our U.S. operating segment.

(U.S.$000s, except as noted otherwise)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Revenues						
Same property	39,050	37,033	2,017	78,039	73,932	4,107
Acquisitions and other	23,313	17,124	6,189	46,490	19,171	27,319
Total revenues	62,363	54,157	8,206	124,529	93,103	31,426
Direct Operating Expenses						
Same property	23,781	23,374	407	47,338	46,530	808
Acquisitions and other	15,647	10,870	4,777	30,836	12,695	18,141
Total expenses	39,428	34,244	5,184	78,174	59,225	18,949
Net Operating Income						
Same property	15,269	13,659	1,610	30,701	27,402	3,299
Acquisitions and other	7,666	6,254	1,412	15,654	6,476	9,178
Total Net Operating Income	22,935	19,913	3,022	46,355	33,878	12,477
Foreign Exchange in CDN	236	2,019	(1,783)	332	4,442	(4,110)
Total Net Operating Income in CDN	23,171	21,932	1,239	46,687	38,320	8,367
Overall operating margins (%)[1]	36.8%	36.9%	(0.1pp)	37.2%	36.5%	0.8pp
Same property statistics:						
Operating margins (%)[1]	39.1%	36.9%	2.2pp	39.3%	37.1%	2.2pp
Weighted average occupancy rate (%)	92.8%	93.1%	(0.3pp)	93.1%	92.4%	0.7pp

(1) Calculated based on U.S. Dollars.

Same property NOI increased by U.S.$1.6 million or 11.8% in Q2 2008 compared to Q2 2007.

Same property revenue increased by U.S.$2.0 million or 5.4% for Q2 2008 compared to Q2 2007. Revenue was positively affected by U.S.$0.6 million due to deferred community fee revenue reflecting updating assumptions on suite turnover rates. This magnitude of adjustment to deferred community fee revenue is not expected to be recurring. In addition, regular annual rent increases which ranged between 4% and 7% helped to offset the impact of a slight occupancy decline from 93.1% to 92.8%.

Continuing challenges in the U.S. economy, credit and housing markets had a negative effect on performance of our U.S. portfolio in Q2 2008 as the weighted average occupancies have declined by 0.5 percentage points from 93.3% in Q1 2008 to 92.8% in Q2 2008. Due to these economic and market

conditions and recent occupancy trends, we expect a lower pace of same property NOI growth in the second half of 2008.*

To mitigate the impact of these conditions we continue the implementation of strategies to provide more payment flexibility to existing and potential residents and continue to invest in marketing and advertising initiatives. We also continue focusing on cost control through new procurement and labour management programs.

Same property direct operating expenses have increased by 1.7% for Q2 2008 compared to Q2 2007. Tight management of labour costs and implementation of new cost management programs that began in the latter half of 2007 offset increased realty taxes.

Acquisitions completed subsequent to January 1, 2007 and the U.S. management operations added U.S.$7.7 million of NOI in Q2 2008.

Same property operating margins increased by 2.2 percentage points in Q2 2008 to 39.1% as compared to 36.9% in Q2 2007.

The operating results of our U.S. operating segment in Canadian dollars were impacted by fluctuations in foreign exchange rates. The average exchange rates were as follows:

	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Weighted average exchange rate for U.S.$1.00 to CDN	1.01	1.098	(0.088)	1.007	1.135	(0.128)

In addition to the trends affecting Q2 2008 compared to Q2 2007, the 2008 YTD results benefited from a one time insurance premium refund of $0.6 million achieved due to the positive claims experienced during the policy period.

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

Canadian Management Operations

The following table presents the results of operations of our Canadian management operations segment.

($000s)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Management and Other Fee Revenue						
Spectrum:						
Development management	403	306	97	814	1,410	(596)
Operations management	478	369	109	982	707	275
Other	67	-	67	84	-	84
Total Spectrum	948	675	273	1,880	2,117	(237)
ING	585	256	329	1,203	2,223	(1,020)
Other	724	554	170	1,513	1,011	502
Total Management and Other Fee Revenue:	2,257	1,485	772	4,596	5,351	(755)
Direct operating expenses	1,027	832	195	2,050	1,890	160
Income from Management Operations	1,230	653	577	2,546	3,461	(915)

In Q2 2008, management operations revenue increased by $0.8 million as compared to Q2 2007 primarily due to higher fees earned from Spectrum, ING and other third-parties.

In Q2 2008, development management fees from Spectrum increased by $0.1 million as compared to Q2 2007. Operation management fees increased due to a larger number of projects currently in the lease-up phase.

Fees from ING increased in Q2 2008 as compared to Q2 2007 primarily as a result of fees earned for providing operations and asset management services for the Regency portfolio which was acquired June 30, 2007.

Revenue from other third parties was higher in Q2 2008 as compared to Q2 2007 due to approximately $0.2 million of revenue related to third-party management contracts acquired as part of the Regency Care acquisition.

Management Operations Direct Operating Expenses:

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

Non-GAAP Measures

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

- Funds from Operations ("FFO")
- Normalized Funds from Operations ("NFFO")
- Adjusted Funds from Operations ("AFFO")

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

Funds from Operations (FFO)

The following table provides a reconciliation of funds from operations to net loss:

($000s, except per unit amounts)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
Net loss per financial statements	(12,872)	(31,153)	18,281	(24,393)	(40,283)	15,890
Add (Subtract):						
Depreciation of properties	17,042	14,184	2,858	33,510	26,024	7,486
Amortization of management contracts, resident contracts and customer relationships	13,149	13,685	(536)	27,743	25,692	2,051
Depreciation of leasehold improvements included in depreciation of properties	(111)	(55)	(56)	(216)	(128)	(88)
Loss/ (Gain) on sale of assets	102	(320)	422	94	(320)	414
Write down of carrying value of assets	-	172	(172)	-	172	(172)
Future income tax expense	-	16,389	(16,389)	237	16,389	(16,152)
Non-controlling interest	(786)	(2,117)	1,331	(1,551)	(2,847)	1,296
Funds from operations[1]	16,524	10,785	5,739	35,424	24,699	10,725
Funds from operations per unit:						
Basic	0.17	0.12	0.05	0.36	0.28	0.08
Diluted	0.16	0.11	0.05	0.35	0.28	0.07

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

FFO and FFO diluted per unit increased by $5.7 million or $0.05 per unit diluted for Q2 2008 compared to Q2 2007 and $10.7 million or $0.07 per unit diluted for 2008 YTD compared to 2007 YTD as follows:

- Reduced unrealized foreign exchange losses of approximately $4.7 million or $0.05 per unit diluted increased FFO for Q2 2008 compared to Q2 2007. For 2008 YTD compared to 2007 YTD, changes in unrealized foreign exchange gains and losses increased FFO by $8.2 million or $0.08 per unit diluted. These unrealized gains and losses primarily relate to cross-border U.S. dollar denominated loans used by Chartwell's Canadian subsidiaries to finance its investments in our operations in a tax efficient manner. Under GAAP, changes in the underlying value of these loans resulting from the changes in foreign exchange rates are required to be recorded in income.

- Amortization of financing costs and debt mark-to-market adjustments and accretion on the convertible debentures, combined reduced FFO by $0.4 million for Q2 2008 compared to Q2 2007 and $1.1 million or $0.01 per unit diluted for 2008 YTD compared to 2007 YTD.

- Current income tax expense related to SIFT tax rules increased FFO by $0.2 million for Q2 2008 compared to Q2 2007 and reduced FFO $0.7 million or $0.01 per unit diluted for 2008 YTD compared to 2007 YTD.
- FFO in Q2 2008 and 2008 YTD reflected strong, positive contributions from our property portfolio resulting from improved occupancies, rate increases, and cost management programs.

Normalized and Adjusted Funds from Operations (NFFO and AFFO)

The following table provides the calculation of NFFO and AFFO:

($000s, except per unit amounts)	Q2 2008	Q2 2007	Increase / (Decrease)	2008 YTD	2007 YTD	Increase / (Decrease)
FFO [(1)]	16,524	10,785	5,739	35,424	24,699	10,725
Add (Subtract):						
Adjustment to record lease expense on a straight line basis over the lease term	1,593	2,049	(456)	3,245	4,400	(1,155)
Unrealized foreign exchange and derivative (gains)/losses	559	5,279	(4,720)	(2,290)	5,905	(8,195)
SIFT Income Tax Expense (Recovery)	(133)	-	(133)	866	-	866
NFFO[(2)]	18,543	18,113	430	37,245	35,004	2,241
Add (Subtract):						
SIFT Income Tax (Expense) Recovery	133	-	133	(866)	-	(866)
Amortization of below market leases	(434)	(410)	(24)	(912)	(823)	(89)
Principal portion of capital subsidy receivable from Health Authorities	524	199	325	1,025	346	679
Amounts received under income guarantees	326	194	132	589	438	151
Amortization of financing costs	1,205	1,187	18	2,412	2,264	148
Accretion adjustment to convertible debenture liability	685	233	452	1,356	517	839
Amortization of debt mark-to-market adjustments arising on acquisition	(305)	(210)	(95)	(582)	(651)	69
Deferred financing fee reserve [(3)]	(248)	(232)	(16)	(497)	(439)	(58)
AFFO before Capex reserve	20,429	19,074	1,355	39,770	36,656	3,114
Maintenance Capex reserve - 2% of property revenue	(3,358)	(2,951)	(407)	(6,686)	(5,528)	(1,158)
AFFO[(4)]	17,071	16,123	948	33,084	31,128	1,956
NFFO per unit						
Basic	0.19	0.19	-	0.38	0.40	(0.02)
Diluted	0.18	0.19	(0.01)	0.37	0.39	(0.02)
AFFO per unit						
Basic	0.17	0.17	-	0.34	0.36	(0.02)
Diluted	0.17	0.17	-	0.33	0.34	(0.01)

(1) Refer to the “Key Performance Indicators – Funds from Operations” section of this MD&A for discussion of the nature of various adjustments made in FFO calculations.
(2) Refer to the “Key Performance Indicators – Normalized Funds from Operations” section of this MD&A for discussion of the nature of various adjustments made in the NFFO calculations.
(3) Deferred financing fee reserve is calculated quarterly as 0.6 basis points applied to our mortgages payable at the end of the quarter, prorated based on the weighted average term to maturity.
(4) Refer to the “Key Performance Indicators – Adjusted Funds from Operations” section of this MD&A for discussion of the nature of various adjustments made in the AFFO calculations.

AFFO and AFFO per unit increased with positive same property operating performance and contributions to AFFO from acquisitions completed in 2007 and to date in 2008. These increases to AFFO and AFFO per unit diluted were offset by the SIFT tax provision on a year to date basis, and reduced fee income.

These factors are more fully described under the "Overview of Consolidated Results of Operations" section of this MD&A.

Quarterly Financial Information

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

	2008		2007				2006	
($000s, except per unit amounts)	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	174,698	174,349	173,165	177,231	156,299	138,342	100,790	94,728
Direct operating expenses	(115,155)	(115,221)	(115,064)	(113,240)	(99,840)	(89,266)	(68,094)	(60,357)
General, administrative and trust expenses	(5,302)	(5,200)	(5,935)	(5,832)	(5,129)	(4,934)	(4,590)	(4,629)
	54,241	53,928	52,166	58,159	51,330	44,142	28,106	29,742
Interest expense	(25,841)	(25,352)	(24,931)	(25,483)	(23,426)	(17,142)	(15,061)	(12,105)
Property lease expenses	(11,339)	(11,421)	(10,731)	(11,565)	(11,785)	(12,387)	-	-
Foreign exchange gains/(losses)	(559)	2,849	(122)	(4,898)	(5,279)	(626)	615	157
Depreciation and amortization	(30,191)	(31,062)	(28,243)	(32,344)	(27,869)	(23,847)	(20,979)	(20,967)
Write down of carrying value of management contracts	-	-	(1,284)	-	(172)	-	(159)	(259)
(Loss)/Gain on sale of assets	(102)	8	(413)	11	320	-	-	296
Non-controlling interest	786	765	1,179	982	2,117	730	572	232
Current income tax (expense) recovery	133	(999)	(2,004)	-	-	-	-	-
Future income tax (expense) recovery	-	(237)	4,267	(1,802)	(16,389)	-	-	-
Net loss for the period	(12,872)	(11,521)	(10,116)	(16,940)	(31,153)	(9,130)	(6,906)	(2,904)
Net loss per unit, diluted	(0.14)	(0.13)	(0.11)	(0.19)	(0.36)	(0.12)	(0.02)	(0.05)
FFO	16,524	18,900	14,317	16,160	10,785	13,914	13,574	17,735
FFO per unit, diluted	0.16	0.19	0.14	0.16	0.11	0.17	0.18	0.25

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

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

Financial Position

Balance Sheet Analysis

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

	Increase / (Decrease) ($millions)	**Explanation**
Properties	50.2	Properties increased as follows: properties acquired to date in 2008 added $37.1 million; internal growth developments and building improvements added $19.6 million; acquisition related capital expenditures increased properties by $3.6 million; capital additions increased properties by $11.9 million, and foreign exchange translation added $19.4 million. These increases were offset by depreciation and amortization of $33.5 million and a purchase price re-allocation to intangible assets of $7.9 million.
Mezzanine loans	(0.8)	Mezzanine loans declined due to the discharge of $5.9 million of mezzanine loans on the acquisition of the related property, along with amortization of mezzanine costs of $0.5 million. These decreases were offset by new advances of $5.6 million.
Total assets	(2.3)	The decrease in total assets in 2008 YTD is principally due to the increase in properties as described above offset by a decrease in cash balances and in resident contracts.
Mortgages payable	58.5	Mortgages payable increased as a result of new mortgage financings of $49.5 million, assumed mortgages of acquired properties of $7.8 million and foreign exchange translation of $15.2 million. These increases were offset by regular amortizing principal repayments of $14.0 million and amortization of financing costs, net of additions of $0.2 million.
Total liabilities	54.0	The increase in total liabilities is primarily due to increases in mortgages payable as discussed above.
Non-controlling interest	(26.2)	Non-controlling interest decreased due to distributions to the holders of the Class B Units of Master LP of $2.4 million, allocation of the non-controlling interest's share of comprehensive loss for the period of $1.3 million and exchanges of Class B Units of Master LP for Trust Units of $22.5 million.
Unitholders' equity	(30.1)	The decrease in Unitholders' equity in 2008 YTD is due primarily to the distributions and allocation of the net loss to the Trust's Unitholders.

Mortgage Debt

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2008.

($000s) Year	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Maturing Debt	Weighted Average Interest Rate of Maturing Debt
Remainder of 2008	13,148	65,767	78,915	5.8%	6.2%
2009	24,173	111,611	135,784	9.9%	5.2%
2010	23,700	56,264	79,964	5.0%	5.5%
2011	24,256	26,136	50,392	2.3%	5.9%
2012	25,948	70,710	96,658	6.3%	5.8%
2013	25,692	80,300	105,992	7.1%	5.3%
2014	23,450	33,704	57,154	3.0%	5.9%
2015	23,346	81,011	104,357	7.2%	5.4%
2016	19,907	173,856	193,763	15.4%	6.0%
2017	16,235	252,687	268,922	22.5%	5.7%
2018-2022	66,194	128,558	194,752	11.4%	6.0%
Thereafter	91,039	48,512	139,551	4.3%	5.6%
Total	377,088	1,129,116	1,506,204		
Mark-to-market adjustments arising on acquisition			16,067		
Less: Financing costs			(18,078)		
Total Mortgage Debt			1,504,193		

The following table provides selected financial statistics for our mortgage debt portfolio:

	As at June 30, 2008	As at December 31, 2007
Average term to maturity	9.1 years	9.1 years
Weighted average contractual interest rate	5.72%	5.81%
Variable rate mortgage debt	$13.1 million	$35.0 million

Our strategy is to mitigate interest rate risk of our debt portfolio by staggering maturities over time and financing our properties with long-term mortgage debt where warranted.

Chartwell's variable rate mortgage debt primarily relates to internal growth projects and communities in lease-up. During Q2 2008 we converted $21.0 million of variable rate loans to fixed rate debt bearing interest at rates ranging between 4.38% and 5.23% per annum, CMHC insured. We anticipate that we will convert the remainder of these loans into fixed rate debt upon completion of the internal growth projects and stabilization of the communities in lease-up.*

Debt maturing in 2008 and 2009 relates exclusively to mortgages on properties in our Canadian portfolio of assets and we anticipate renewing the 2008 and 2009 maturities in due course.* We have access to low cost CMHC insured debt and we intend to continue financing our properties through this program. CMHC insured debt represents 58% of our 2008 maturities and 86% of our 2009 maturities.

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

Convertible Debentures

At June 30, 2008 Chartwell had $124.9 million of the 6% convertible unsecured subordinated debentures and $75 million of the 5.9% convertible unsecured subordinated debentures outstanding. The 6% convertible debentures are convertible into Trust Units at a conversion price of $15.60 per unit and mature on December 1, 2011. The 5.9% convertible debentures are convertible into Trust Units at a conversion price of $16.25 per unit and mature on May 1, 2012.

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 June 30, 2008, including the indebtedness of third parties guaranteed by Chartwell:

($000s)	**June 30, 2008**
Mortgages payable	1,506,204
Loans payable [1]	1,064
Guarantees	63,366
Total indebtedness excluding convertible debentures	1,570,634
Convertible debentures (face value)	199,925
Indebtedness	1,770,559
Total assets	2,600,720
Accumulated depreciation and amortization[2]	322,966
Gross book value ("GBV") of assets	2,923,686
Less: Assets financed by deferred purchase consideration on acquisition properties	33,407
Gross book value of assets (net of deferred consideration)	2,890,279
Debt to GBV before convertible debentures	54.3%
Debt to GBV including convertible debentures	61.3%

(1) Included in Accounts Payable and Accrued Liabilities as described in Note 9 to the Financial Statements.
(2) Includes accumulated depreciation and amortization related to fully amortized intangible assets of $72,608.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units in Q2 2008:

	Trust Units	LTIP Units under Subscription	Class B Units of Master LP	Total
Balance December 31, 2007	91,625,701	2,336,323	6,273,378	100,235,402
Trust Units issued pursuant to Dividend Reinvestment Plan ("DRIP")	578,397	-	-	578,397
Trust Units issued under the Long-Term Incentive Plan ("LTIP")	-	590,167	-	590,167
LTIP Units under subscription surrendered	-	(15,000)		(15,000)
Trust Units issued on disposition of LTIP Units surrendered	70,000	-	-	70,000
Exchange of Class B Units of Master LP [1]	3,123,526	-	(3,123,526)	-
Balance June 30, 2008	95,397,624	2,911,490	3,149,852	101,458,966

(1) Spectrum has exchanged 3,080,766 of Class B Units of Master LP into Trust Units in Q2 2008 pursuant to a corporate reorganization of Spectrum.

Cash Flow Analysis

The following table summarizes the significant changes in the REIT's operating, financing and investing cash flows between the six months ended June 30, 2008 and 2007.

Cash provided by (used in):	Increase / (Decrease) ($millions)	Explanation
Operating activities	(10.1)	Cash flows from operating activities decreased primarily due to reduced positive changes in non-cash working capital from $24.9 million in 2007 to $8.9 million in 2008, for a reduction in cash of $16.0 million. This was offset by improved operating results from our properties.
Financing activities	(545.3)	Cash flows from financing activities decreased by $545.3 million in 2008 compared to 2007. This decrease is primarily attributable to a decrease in proceeds from mortgage financings which, net of repayments, decreased cash flow from financing activities by $222.3 million. In addition, 2007 YTD included proceeds from ING of $41.9 million, the issuance of convertible debentures for proceeds of $72.2 million and proceeds of a secondary public offering of $219.3 million (net of issue cost) for which there is not a comparable amount in 2008 YTD. The above decrease in cash inflow from financing activities was partially offset by lower distributions paid.
Investing activities	481.4	Cash flow used in investing activities decreased by $481.4 million for 2008 compared to 2007 which is primarily attributable to lower acquisition activity.

Distributions

As described in the "Significant Events and 2008 Outlook" section of this MD&A, effective with the payment to Unitholders for March 2008, due on April 17, 2008, cash distributions were reduced to $0.74 per annum per unit from the previous level of $1.065 per annum per unit. The declaration and payment of future distributions is subject to the discretion of the board of Trustees and will be dependent upon a number of factors including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors deemed relevant by the Board of Trustees. At our Annual General Meeting held May 22, 2008, Chartwell received Unitholder approval to remove any reference to Distributable Income from the Declaration of Trust. Our Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information including internal forecasts and budgets to establish the level of cash distributions, provided that such annual distributions continue to be not less than Chartwell's net income for tax purposes for the year. It is Chartwell's intention that annual distributions will be at least equal to 70% of the Trust's adjusted funds from operation for the year, as disclosed in the relevant year's Management's Discussion and Analysis for the Trust.

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

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

The following table summarizes distributions made in Q2 2008, 2008 YTD and the years ended December 31, 2007 and 2006:

			Year Ended December 31	
($000s)	Q2 2008	2008 YTD	2007	2006
Distributions declared	17,473	39,764	94,145	65,378
Distributions on Class B units of Master LP	963	2,456	6,839	5,744
Distributions reinvested under DRIP	(2,575)	(5,434)	(4,317)	(2,476)
Distributions applied against LTIP installment loan receivable	(518)	(1,136)	(2,557)	(1,848)
Distributions paid or payable in cash	15,344	35,650	94,110	66,798

The following table summarizes cash distributions made by Chartwell in Q2 2008, 2008 YTD and for the years ended December 31, 2007 and 2006 in relation to net loss and cash flows from operating activities:

			Year Ended December 31	
($000s)	Q2 2008	2008 YTD	2007	2006
Cash flows from operating activities	24,696	49,779	101,435	63,421
Loss before non-controlling interest	(13,658)	(25,944)	(72,347)	(15,950)
Cash distributions declared[1]	15,344	35,650	94,110	66,798
Excess(shortfall) of cash flows from operating activities over cash distributions paid	9,352	14,129	7,325	(3,377)
Excess (shortfall) of net loss over cash distributions paid	(29,002)	(61,594)	(166,457)	(82,748)

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

The following table provides the details of additional sources of cash available to Chartwell to fund its distributions to Unitholders in Q2 2008, 2008 YTD and for the years ended December 31, 2007 and 2006:

			Year Ended December 31	
($000s)	Q2 2008	2008 YTD	2007	2006
Principal portion of capital subsidy receivable from Health Authorities [1]	524	1025	1,343	344
Amounts received under income guarantees [1]	326	589	1,548	757

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

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

The excess of cash flow from operating activities over cash distributions in Q2 2008, 2008 YTD and the year ended December 31, 2007, partially relates to the positive changes in non-cash working capital balances. Changes in non-cash working capital fluctuate from period to period and we do not believe to be representative of a sustainable source of cash inflow. For the first six months of 2008, non-cash working capital increased cash flows from operating activities by approximately $8.9 million.

Liquidity and Capital Resources

Chartwell's cash commitments include payments related to mortgage and other long-term debt and convertible debentures, cash distributions to Unitholders, operating leases and deferred purchase obligations.

Chartwell's principal source of liquidity is cash flow from operations. In order to provide for its operating and capital requirements, Chartwell raises funds through the capital markets, arranges mortgage debt financing and has arranged for a secured revolving operating facility ("Credit Facility") of up to $90.0 million. As of June 30, 2008, Chartwell had a borrowing capacity of approximately $67.5 million based on available security.

The Credit Facility matured on June 28, 2008. Chartwell received syndicate lenders' approval to extend the term of the Credit Facility until June 27, 2009. Under the proposed revised terms and conditions, amounts outstanding under the Credit Facility will bear interest at the bank's prime rate plus 1% or at the applicable banker's acceptances rate plus 2.25%. The proposed revised terms include minimum equity requirements and covenants requiring limitation of distributions paid based on AFFO. Chartwell is currently in the process of finalizing legal agreements with the syndicate lenders. At June 30, 2008, there were no amounts outstanding under the Credit Facility.

At June 30, 2008, one of Chartwell's U.S. subsidiaries did not comply with certain financial covenants under a loan agreement for one of its properties. The loan balance at June 30, 2008 was $12.2 million bearing interest at 6.24% per annum and matures on January 1, 2014. Chartwell is current with its principal and interest payments and discussions with lenders to remedy the financial covenants are in progress.

Management expects that our principal use of funds in the future will be for regular amortizing debt repayments, distributions, capital expenditures on our existing property portfolio, the acquisition of seniors housing properties, and mezzanine financing to Spectrum and other third-parties[*]. As at June 30, 2008, Chartwell also had cash on hand of approximately $37.3 million.

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 Q2 2008 and 2008 YTD:

($000s)	Q2 2008	2008 YTD
Building improvements and additions	11,740	21,637
Acquisitions related capital expenditures	3,918	6,507
Long-term replacement items	340	468
Furniture, fixtures and equipment	1,439	2,532
Other	2,683	3,934
Total	20,120	35,078

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

Contractual Obligations and Guarantees

The nature of Chartwell's major contractual obligations and guarantees have been set out in our annual MD&A. There have not been any material changes in the specified contractual obligations and guarantees to date in 2008 that are outside of the ordinary course of our business.

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 three and six months ended June 30, 2008:

Spectrum

Under the terms of the Development Agreement with Spectrum, a company in which Chartwell's senior management owned a controlling interest as at March 31, 2008 (including Stephen Suske, CEO and Vice Chairman, Brent Binions, President, Richard Noonan, Chief Operating Officer, Canadian Retirement Communities, Peter Gaskill, Senior Vice President, Development, Evan Miller, Vice President, Development, Robert Ezer, former President and Co-CEO, and Leslie Veiner, former Senior Vice President, Real Estate), Chartwell provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee. Effective April 1, 2008, with the resignation of Robert Ezer and Leslie Veiner, Chartwell's senior management no longer holds a controlling interest in Spectrum.

As of June 30, 2008, mezzanine loans receivable from Spectrum amounted to approximately $50.0 million. These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 33 seniors' housing development properties.

During Q2 2008 and 2008 YTD, Chartwell recorded contractual mezzanine loan interest of approximately $1.3 million and $2.6 million respectively from Spectrum.

During Q2 2008 and 2008 YTD, Chartwell earned development, operations management and other fees of approximately $0.9 million and $1.8 million respectively from Spectrum.

Other assets as of June 30, 2008 include approximately $5.9 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell on behalf of Spectrum. Subsequent to June 30, 2008, approximately $0.9 million of this balance was paid.

At June 30, 2008, Spectrum was in technical default of certain provisions of the Development Agreement. Chartwell is currently working with Spectrum to have these defaults corrected. These defaults are not expected to have any adverse effect on the collectibility of outstanding accounts receivable and mezzanine loans.

In Q1 2008, Chartwell acquired one seniors housing community from Spectrum, Melior and their joint venture partner for a total purchase price of approximately $29.8 million, inclusive of closing costs. Each of Spectrum and Melior had one third ownership interest in the property. The purchase price was settled by a discharge of mezzanine loans receivable of $5.9 million, and approximately $23.3 million of cash.

In Q1 2008, Chartwell sold 0.1 of an acre of land to Spectrum, Melior and their joint venture partner for a total purchase price of $0.05 million.

Melior and Other Spectrum Partners

As of June 30, 2008, Chartwell had mezzanine loans receivable of approximately $61.7 million from six of Spectrum's joint venture partners (including approximately $45.0 million advanced to entities controlled by Melior) (the "Borrowers"). These loans bear interest at rates between 10% and 14% and are secured by second fixed charges or pledges of the Borrowers' interests in 25 development projects.

During Q2 2008 and 2008 YTD, Chartwell recorded contractual mezzanine loan interest from Melior of approximately $1.2 million and $2.4 million respectively.

In addition, during Q2 2008 and 2008 YTD, Chartwell paid Melior project management fees of $0.8 million and $1.3 million respectively. During Q2 2008 and 2008 YTD, we reimbursed Melior for costs of $0.02 million and $0.2 million respectively.

Accounts receivable and other assets at June 30, 2008 included approximately $2.0 million due from Melior. Subsequent to June 30, 2008, approximately $0.5 million of outstanding amounts due from Melior were collected.

At June 30, 2008 Chartwell had accounts payable of $0.3 million due to Melior relating to management fees, legal fees, promissory notes and deferred purchase consideration.

Other

Included in mortgages payable at June 30, 2008 is a vendor-take-back loan of approximately $0.5 million due to an officer of Chartwell.

Included in accounts receivable at June 30, 2008 is $0.1 million due from an officer of Chartwell related to the previous sale of a property to the Trust.

Subsequent Events

Subsequent to June 30, 2008, Chartwell REIT advanced $0.8 million of mezzanine loans to Spectrum.

Changes to Significant Accounting Policies

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

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

On January 1, 2008, Chartwell adopted the new recommendations of the following CICA Handbook Sections: Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – Presentation".

The CICA Handbook Section 3862 requires disclosure that enables users of the financial statements to evaluate the significance of Chartwell's financial instruments and the nature and extent of risks arising from those financial instruments. The CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861. The new disclosure provided pursuant to these new Handbook Sections is included in Notes 14 and 20 of the Financial Statements. The new guidance did not have a material effect on Chartwell's financial position or earnings.

Effective January 1, 2008, the CICA's new accounting standard, Section 1535, Capital Disclosures, was implemented. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate Chartwell's objectives, policies and processes for managing capital. The new guidance did not have an effect on Chartwell's financial position or earnings. Disclosures required by this new section are provided in Note 21 of the Financial Statements.

Management is considering the future accounting impact of the new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will be effective retroactively on January 1, 2009. The new section reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Management is also monitoring the impact of the following on Chartwell's financial reporting:

- The new legislation governing long-term care communities in Ontario, which, among other things, contemplates the granting of licenses for fixed terms of up to 25 years. The legislation has not yet been fully proclaimed into effect. If it is proclaimed into effect in the current form, the Trust may be required to start amortizing the value of its long term care licenses over the respective license term.
- Convergence with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")
    - Canada's Accounting Standards Board recently confirmed its strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be completed by 2011. Chartwell will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.
    - Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced

in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.

- Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses (including debt covenants), employee compensation plans and performance metrics. Accordingly, Chartwell's implementation plan will include measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst Management, the Board, the Audit Committee and Investors.
- We are currently in the process of assessing the impacts of the Canadian convergence initiative and it is anticipated that additional resources will be engaged to ensure the timely conversion to IFRS.

Critical Accounting Estimates

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

Chartwell's Annual MD&A sets out the nature of critical accounting estimates that may affect our financial statements. There have not been any significant changes in the nature of the critical accounting estimates that could affect Chartwell's financial statements during the first six months of 2008.

Controls and Procedures

Chartwell is committed to maintaining effective disclosure control procedures and internal controls over financial reporting ("internal controls"). Over the past two years, we made significant investments in improvements to our information systems and financial processes. We expect to continue these efforts to further strengthen our internal controls in 2008 and beyond. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer 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 March 31, 2008. Based on this evaluation, we have concluded that Chartwell maintains appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete, reliable and timely.

Evaluation of and Changes in Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have also evaluated, or caused an evaluation under their direct supervision, of the design of the Trust's internal controls over financial reporting during the quarter and have not noted any material changes in internal controls during 2008 YTD. A material weakness is a control deficiency, or combination of control deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We believe one material internal control weakness exists as follows:

Deficiencies with certain information technology ("IT") controls at our co-owned management company in Quebec

Based on our evaluation of the internal controls at our Quebec co-owned company, we continue to note a lack of segregation of duties within certain key information technology positions; insufficient access and password controls around our key applications and servers; and change management processes.

To address these control deficiencies, we undertook a secondary review of all financial information generated by this co-owned entity on a monthly basis, and in the first quarter of 2007, we migrated some of the IT operation functions from this co-owned management company to our head office. We will continue to migrate the remaining key IT functions to our head office, which is expected to be completed in 2008. This migration will allow program changes to follow our existing IT change management policies and procedures and will provide proper segregation of IT responsibilities.

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

Forward–Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or other 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, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

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

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

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

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

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

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

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

Risks and Uncertainties

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

(b) **Taxation**:

SIFT Tax

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of certain publicly-listed or traded trusts, as discussed below, income earned by Chartwell and distributed annually to Unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual Unitholder level. For financial statement reporting purposes, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and was committed to continue distributing all of its taxable income to its Unitholders. Accordingly, Chartwell did not previously record a provision for income taxes or future income tax assets or liabilities, in respect of Chartwell or its investment in its subsidiary trust.

For a description of the recent tax developments relating to SIFT Rules, please refer to the "2008 Outlook and Significant Events – Taxation Related Matters" section of this MD&A.

With the enactment of the SIFT Rules and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance ("Finance"), Chartwell is subject to SIFT tax effective January 1, 2007.

Under the existing SIFT Rules, a flow-through subsidiary of Chartwell may also be a SIFT. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Draft legislation was released on July 14, 2008. The proposed technical amendment to the SIFT definition would definitely exclude trusts and partnerships whose equity is not publicly traded, and/or is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. A subsidiary partnership of Chartwell may not meet this ownership requirement and therefore this entity may be a SIFT. Due to this uncertainty, we have provided for SIFT tax on the taxable income of this subsidiary and accordingly have recorded a current income tax provision of $0.7 million in 2008 YTD.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's units. In 2007, 97.7% of Chartwell's distributions were characterized as return of capital. Management believes it is likely that a high return of capital component

would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

As previously disclosed, in light of the changes to the federal income taxation of publicly traded income trusts, the Board of Directors of Chartwell set up a special committee ("the Special Committee") to review Chartwell's strategic options. At this time the Special Committee remains in place to address strategic matters as they arise.

(c) **Geographic Concentration**: A substantial portion of the business and operations of Chartwell is conducted in the United States and Canada, and within Canada in Ontario and Quebec. At June 30, 2008 a geographic concentration of our suites as a percentage of total suites was: U.S. – 49%; Canada – 51%; by province as a percentage of total suites as follows: Ontario – 29%; Quebec – 18%; and other Canadian provinces – 4%. The market value of these Properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.

(d) **Maintenance of Productive Capacity**: Chartwell is committed to keep its communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio the annual capital maintenance requirements are approximately 2% of annual gross property revenues.* In addition to recurring capital maintenance projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the capital maintenance requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in capital maintenance requirements of our communities could adversely impact cash available for distributions. The details of our actual capital asset spending for Q2 2008 and 2008 YTD can be found in the "Capital Expenditures" section of this MD&A.

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

(f) **Competition:** Numerous other developers, managers and owners of seniors housing communities will compete with Chartwell in seeking residents. The existence of competing developers, managers and owners and competition for Chartwell's residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents charged, and could adversely affect Chartwell's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Community suites in the regions in which Chartwell owns Retirement Homes may have an impact on the demand for suites in Retirement Homes.

(g) **Government Regulation**: Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely

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

affect Chartwell. In addition, new regulatory standards and requirements are being considered in a number of provinces which may affect all types of seniors housing communities.

Currently, the LTC Communities in Ontario are operated pursuant to the Nursing Homes Act, the Charitable Institutions Act or Homes for the Aged and Rest Homes Act. On October 3, 2006, the Government of Ontario introduced Bill140, now known as the Long-Term Care Homes Act, 2007 ("LTC Act 2007") which will consolidate the three pieces of legislation currently governing the LTC Communities. Aspects of the LTC Act 2007 which could affect Chartwell's LTC Communities include: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes. In addition, there will be a notice given three years before the end of the term of a license as to whether a new license will be issued. The LTC Act 2007 received third reading on June 4, 2007.

The LTC Act 2007 can not be fully proclaimed into force until regulations are drafted, which is expected to take at least twelve months. It is therefore anticipated that the LTC Act 2007 will not be fully in force until 2009.

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

(i) **Labour Relations**: Chartwell, directly and indirectly, employs or supervises approximately over 15,000 persons, of whom approximately 40% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that Chartwell will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Chartwell's business, operating results and financial condition. However, most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing community sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

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

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

(j) **Debt Financing**: Chartwell has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of the Property Mortgages. Chartwell intends to finance its acquisitions and developments, through a combination of its working capital and liquidity

resources, including its cash flow from operations, additional indebtedness and public or private sales of equity or debt securities.

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

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

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

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

(m) **Environmental Liabilities**: Under various environmental laws and regulations, Chartwell, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations sometimes regardless of whether or not the Trust knew of or was responsible for their

presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, management of Chartwell is not aware of any material non-compliance, liability or other claim in connection with any of the owned properties and the managed properties in respect of which acquisition mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that its believes would involve material expenditure by the Trust.

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

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

(o) **Joint Venture Interests**: Chartwell has entered into joint venture arrangements in respect of certain of its seniors housing operations. These joint venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing facilities including those risks described above. However, Chartwell relies, in part, on its joint venture partners to successfully manage and operate certain of its seniors housing operations, including those owned by the joint ventures. Such reliance may include, but is not limited to: personnel; local, regional and/or industry expertise and licensing; historical performance; technical resources and information systems; financial strength and access to capital; economies of scale; and operations management. Therefore, Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint venture partners which could have a significant impact on, or termination of, Chartwell's interests in its joint ventures and could affect the value of the joint ventures to Chartwell and/or cause Chartwell to incur additional costs if it were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint venture arrangements themselves, including: the risk that the other joint venturer may exercise buy-sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other joint venturer's interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.