CHARTWELL
SENIORS HOUSING REIT

Second Quarter 2005

Report to Unitholders

For the Three and Six Months Ended
June 30, 2005

August 11, 2005

To Our Unitholders

Our continued growth in the second quarter of 2005 generated further benefits for our unitholders. Through the first six months of 2005 we have invested approximately $93 million in the acquisition of interests in 10 seniors residential facilities totaling 858 suites. Primarily as a result of these acquisitions, consolidated revenues for the second quarter rose 72% compared to last year, and 78% for the first six months of 2005. Same property revenues also contributed to our strong performance, rising 4.4% and 7.0% in the second quarter and first six months of 2005 respectively due to improved occupancies, fees for the provision of new services to residents, and the positive impact of annual rent increases.

Distributable income increased to $11.1 million or $0.25 per fully diluted unit in the second quarter. Distributions were declared and paid during the quarter of $11.8 million or $0.27 per unit. Effective with the March 2005 payment, monthly cash distributions were increased by 4% to $0.8875 per unit. In addition, the weighted average number of units outstanding increased by 52.5%. Despite these factors, our payout ratio improved to 106% from 130% last year. For the six months ended June 30, 2005 our payout ratio was also much improved at 106% compared to 146% last year.

Subsequent to the end of the second quarter we completed the acquisition of CPAC (Care) Holdings Ltd. of Vancouver, British Columbia, purchasing interests in 977 suites in six facilities in British Columbia, and thereby becoming the largest owner and operator of seniors residential facilities in the Province.

On July 19, 2005 we announced that, through a newly established US subsidiary, we had formed a joint venture with ING Real Estate Australia Pty Limited, a subsidiary of ING Groep N.V. of the Netherlands, to acquire a portfolio of high quality retirement residences in the United States in Colorado and Texas totaling 1,043 suites. Chartwell and ING will each acquire a 50% interest in the portfolio. We also announced that we were forming a 50% joint venture seniors housing management entity with Horizon Bay Management LLC, a large and respected owner and operator of seniors residential facilities across the United States. The new entity will act as the property manager for our new US portfolio and other seniors' residences we may acquire in the US.

With the completion of this transaction, we will extend our reach into the strong and growing US seniors housing market, align the REIT with one of that country's most respected and proven seniors housing management teams, and establish a relationship with an equity partner with global access to deep and competitive sources of capital. Our total portfolio, including managed properties and those under development, will increase to 16,166 suites in 143 facilities, with our new US properties accounting for approximately 6% of the total portfolio. This further enhances our geographic diversification.

The completion of these acquisitions also brings us close to achieving our acquisition objective for 2005. More importantly, both acquisitions will be immediately accretive to our distributable income, and will contribute to further improvement in our payout ratio through the balance of the year.

We are also confident that the REIT will generate sufficient distributable cash in 2005 to maintain our current level of monthly cash distributions for the balance of year.

(signed)
Stephen Suske
Vice Chair & President

(signed)
Robert Ezer
Chief Executive Officer

(signed)
Brent Binions
Executive Vice President

100 Milverton Drive, Suite 700 Mississauga, Ontario L5R 4H1
Telephone: (905) 501-9219 ♦ Fax: (905) 501-9107

Management's Discussion and Analysis

For the three and six months ended June 30, 2005

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

Chartwell Seniors Housing Real Estate Investment Trust (the "REIT" or "Chartwell") has prepared the following discussion and analysis (the "MD&A") to provide information to assist its Unitholders' understanding of the financial results for the three and six months ended June 30, 2005. This discussion and analysis should be read in conjunction with the REIT's unaudited consolidated financial statements for the three and six months ended June 30, 2005, the notes thereto and the audited financial statements and management's discussion and analysis for the year ended December 31, 2004. This material is available on the REIT's website at www.chartwellreit.ca. Additional information about the REIT, 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 4, 2005.

FORWARD LOOKING DISCLAIMER

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

BUSINESS OVERVIEW

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("Retirement Homes") to long-term care facilities ("LTC Facilities"), all of which are located in Canada. All references to "Chartwell" or "the REIT", unless the context otherwise requires, means the REIT and its subsidiaries. For ease of reference "Chartwell" and "the REIT" have been used in reference to ownership of seniors housing facilities and the operation of the seniors housing operations and development management business. Actual direct ownership of such facilities and the operation of such business is conducted by a subsidiary of the REIT. As of June 30, 2005 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in over 14,000 suites in 131 facilities which are operating, under construction or in various stages of development, located in the Provinces of Ontario, Alberta, Saskatchewan, British Columbia and Quebec. The REIT's owned portfolio of 7,643 suites, is 68% Independent Living and Light Care, 18% Full Care and Assisted Living and 14% in Long-

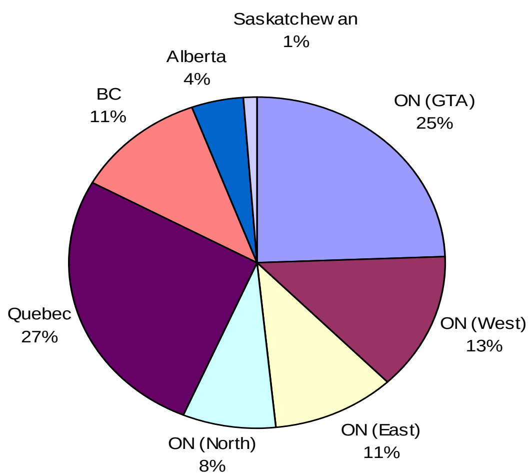
Term Care. In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of seniors housing facilities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of each local marketplace. Chartwell employs approximately 3,800 people in its owned properties.

As of June 30, 2005, the REIT operated the following portfolio of homes in its three operating segments:

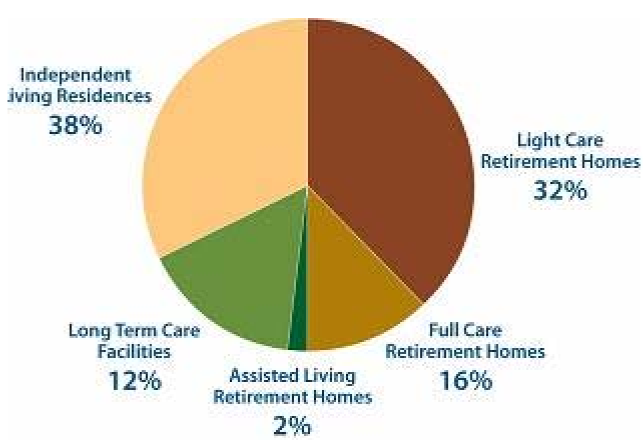
	Retirement Operations	Long-Term Care Operations	Management Operations	Total
Facilities	69(1)(2)	8(1)(3)	54(4)	131
Suites/Beds	6,579	1,064	6,549	14,192

(1) Where facility provides more than one level of care, it has been designated according to the predominate level of care provided.
(2) Includes one facility that has 33 long term care beds.
(3) Includes three facilities that have a total of 91 retirement home beds.
(4) Includes stabilized, lease-up and facilities under development.

Composition of portfolio of owned and managed suites by geographical location



Composition of portfolio of owned and managed homes by level of care



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

Chartwell also provides mezzanine financing to entities controlled by Le Groupe Melior ("Melior") and their joint venture partners to develop seniors housing facilities.

Chartwell has a right to purchase these facilities upon stabilization at fair market value. Chartwell also provides structuring, consulting and advisory services for a fee to Melior and its joint venture partners in respect of their development program.

SIGNIFICANT EVENTS IN THE FIRST SIX MONTHS OF 2005

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

Acquisitions

In the second quarter of 2005, Chartwell REIT acquired 5 seniors housing facilities (525 suites) for a total purchase price of $62.3 million. The purchase price was settled by the assumption of mortgages payable of $17.2 million, issuance of 0.2 million of Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of the REIT, valued at $2.3 million, the settlement of $7.0 million of mezzanine loans receivable and cash.

In the first quarter of 2005, Chartwell REIT acquired 5 seniors housing facilities (333 suites) in two separate transactions for a total purchase price of $30.6 million. The purchase price was settled by the assumption of mortgages payable of $5.0 million, issuance of 1.055 million Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of the REIT, valued at $13.9 million, the settlement of $4.1 million of mezzanine loans receivable and cash.

The following table summarizes the acquisitions completed in the first six months of 2005 and in the year ended December 31, 2004:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
	2005				
1)	Barclay House	North Bay, ON	Retirement	February 28, 2005	63
2)	The Georgian	Timmins, ON	Retirement	February 28, 2005	63
3)	The Pinewood	Pembroke, ON	Retirement	February 28, 2005	45
4)	The Westmount	Sudbury, ON	Retirement	February 28, 2005	84
5)	Glacier Ridge	Thunder Bay, ON	Retirement	March 30, 2005	78
6)	Royal Oak	Kingsville, ON	Long-term care	April 1, 2005	160
7)	Villa Val des Arbres	Laval, QC	Retirement	May 1, 2005	163
8)	Bridlewood	Gloucester, ON	Retirement	May 2, 2005	59
9)	Carrington Place	Vernon, BC	Retirement	May 31, 2005	72
10)	Collegiate Heights	Sault Ste. Marie, ON	Retirement	June 29, 2005	71
					858
	2004				
1	Aurora Resthaven	Aurora, ON	Long term care	February 11, 2004	240
2	Ballycliffe Lodge	Ajax, ON	Long term care	February 11, 2004	100
			Retirement		42
3	Bon-Air	Cannington, ON	Long term care	February 11, 2004	55
			Retirement		9
4	The Gibson	Toronto, ON	Long term care	February 11, 2004	202
5	Gibson Retirement Residence	Toronto, ON	Retirement	February 11, 2004	73
6	Pine Grove Lodge	Woodbridge, ON	Long term care	February 11, 2004	100
			Retirement		40
7	Residence Champlain	L'Original, ON	Long term care	February 11, 2004	60
8	White Eagle	Toronto, ON	Long term care	February 11, 2004	56
9	Lynnwood	Chilliwack, BC	Retirement	March 1, 2004	121
10	New Edinburgh Square	Ottawa, ON	Retirement	April 29, 2004	95
11	Le Monastere d'Aylmer[(1)]	Aylmer, PQ	Retirement	June 21, 2004	200
12	Marquis de Tracey I[(1)]	Sorel-Tracey, PQ	Retirement	June 21, 2004	128
13	Marquis de Tracey II[(1)]	Tracey, PQ	Retirement	June 21, 2004	65
14	Notre Dame de Hull[(1)]	Hull, PQ	Retirement	June 21, 2004	205
15	Domaine du Chateaux de Bordeaux[(1)]	Sillery, PQ	Retirement	June 21, 2004	163
16	La Residence St-Pierre[(1)]	Rouyn-Noranda, PQ	Retirement	June 21, 2004	122
17	Residence Principale[(1)]	Cowansville, PQ	Retirement	June 21, 2004	145
18	Cite-Jardin	Gatineau, PQ	Retirement	July 1, 2004	284
19	Willow Manor	Maple Ridge, BC	Long term care	July 29, 2004	33
			Retirement		100
20	Residence Le Duplessis	Trois Riviers, PQ	Retirement	August 31, 2004	223
21	Residence Ste Genevieve	Ste Foy, PQ	Retirement	August 31, 2004	202
22	Cedar Creek Lodge	Chilliwack, BC	Retirement	September 1, 2004	16
23	Norman Manor	Chilliwack, BC	Retirement	September 1, 2004	29
24	Carrington House	Mission, BC	Retirement	September 1, 2004	70
25	Riverside Manor	Hope, BC	Retirement	September 1, 2004	30
26	Oak Park Terrace	Windsor, ON	Retirement	September 10, 2004	112
27	Rideau Place	Ottawa, ON	Retirement	September 14, 2004	115
28	Number Four Teddington Place	Toronto, ON	Retirement	October 1, 2004	51
29	Nine Twenty One Millwood	Toronto, ON	Retirement	October 1, 2004	58
30	Domaine Cascade	Shawinigan, PQ	Retirement	December 1, 2004	218
31	Oasis St. Jean	St. Jean sur Richeleau, PQ	Retirement	December 1, 2004	239
32	Brookside Manor[(1)]	Kanata, ON	Retirement	December 1, 2004	80
					4,081

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

$90 Million Equity Issue

On March 30, 2005, the REIT completed an offering of Trust Units and issued 6.25 million Units at $14.45 per Unit. The net proceeds of $85.2 million, after the payment of issue related costs of $5.1 million, were used to repay the amounts outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

Mezzanine Loans

In the second quarter of 2005, the REIT advanced $13.8 million of new mezzanine loans to Spectrum and third parties for the development of 9 seniors housing facilities (partial advances on 4 of these projects were made prior to the second quarter of 2005). Two mezzanine loans in the amount of $7.0 were settled on the acquisition of the Bridlewood Retirement Residence and the Collegiate Heights Retirement Residence from Spectrum.

In addition, Spectrum repaid one mezzanine loan in the amount of $0.5 million.

In the first quarter of 2005, the REIT advanced additional mezzanine loans totaling $3.8 million to Spectrum and other parties for the development of 2 seniors housing facilities. In addition, one mezzanine loan receivable in the amount of $4.1 million was settled on the acquisition of the Glacier Ridge Retirement Home from Spectrum.

The new mezzanine loans bear interest at the rates between 10% and 14% and are secured by second fixed charges and/or pledges of the borrowers' interests in the respective projects.

New Financing Arrangements

In the second quarter of 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) for 3 of its facilities in the aggregate amount of $23.6 million. This debt bears interest at a weighted average rate of 5.5% and matures on various dates up to May, 2025.

In addition, the REIT arranged for new variable rate debt on 3 of its internal growth projects and 1 facility in lease-up. These loans amount to $7.6 million and bear interest at rates ranging from Prime plus 0.5% to Prime plus 3% and mature on various dates up to December, 2007.

In the second quarter of 2005, the REIT paid down one of its bridge loan facilities by $3.9 million from the proceeds of permanent financing on one seniors housing facility. As of June 30, 2005, the REIT had two bridge facilities outstanding in the amount of $8.5 million, which were secured by second charges over 3 seniors housing facilities.

In the first quarter of 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) for 5 of its facilities in the aggregate amount of $12.0 million. This debt bears interest at a weighted average rate of 5.9% and matures on various dates up to February 2017.

Increase in Distributions

Effective with the March 31, 2005 distribution, the REIT increased its monthly cash distribution to 0.08875 per unit from 0.0854 per Unit. Annualizing this monthly increase annual cash distributions would rise from $1.025 per Unit to $1.065 per Unit.

Amendments to the Declaration of Trust

At the May 25, 2005 Annual and Special meeting of REIT Unitholders, the following amendments to the Declaration of Trust were approved:

Investments by the REIT in the United States of America

Amendments were authorized to permit the REIT to expand its acquisition to include existing income-producing seniors housing facilities located in the United States of America, as well as in Canada, that are substantially occupied, and to include seniors housing operations and development management businesses in the United States of America as well as in Canada.

Maximum REIT Indebtedness

Amendments were authorized to permit the REIT, where the Trustees determine it is appropriate to do so, to incur or assume indebtedness, including convertible debentures, up to a maximum of 65% of the Adjusted Gross Book Value of the REIT and to incur or assume indebtedness, excluding debentures, up to a maximum of 60% of the Adjusted Gross Book Value of the REIT.

Provision of Guarantees by the REIT

The Declaration of Trust previously stated that the REIT could not provide a guarantee in respect of the indebtedness of another person without first obtaining a legal opinion or advance income tax ruling to the effect that such guarantee will not cause the REIT to cease to qualify as a “mutual fund trust” for purposes of the *Income Tax Act* (Canada). Amendments were authorized to remove the requirement to obtain such a legal opinion or advance income tax ruling. The provision of a guarantee by the REIT remains subject to the Trustees being satisfied that such guarantee will not cause the REIT to cease to qualify as a “mutual fund trust” for the purposes of the *Income Tax Act* (Canada).

Amendment to Definition of Distributable Income

The Declaration of Trust previously contained a definition of “Distributable Income” of the REIT which contained a specific reference to ensure that distributions (“Exchangeable Security Distribution Amount”) relating to the Class B Master LP Units of Master LP be included in the calculation of “Distributable Income.” The original intention of this reference was to ensure that Distributable Income of the REIT was calculated on a fully diluted basis. Recent accounting changes required that the Class B Master LP Units be treated as a minority interest on the books of the REIT and therefore the reference to the Exchangeable Security Distribution Amount in the calculation of Distributable Income was deemed redundant. Accordingly, the reference to the Exchangeable Security Distribution Amount was deleted from the Declaration of Trust.

OUTLOOK

The Canadian seniors housing industry is highly fragmented with the ten largest participants in the business accounting for only 23% of Canadian seniors housing suites. As the country's second largest industry participant, Chartwell believes it has the resources and the experience to structure and offer smaller operators an exit strategy that meet their needs.

However, management has seen a compression in capitalization rates in 2005 and as a result, although the acquisition activity is continuing as anticipated, the expected accretiveness of acquisitions has declined from original expectations. Management does not expect capitalization rates to return to their prior levels in 2005.

As a result, management believes that new development will become an increasingly important source of internal growth. As of June 30, 2005 Chartwell has the right to acquire interests in over 4,100 suites in lease up or under development by Spectrum, Melior and other joint venture partners. In the first six months of 2005, the REIT acquired three seniors housing facilities from Spectrum and expects to acquire an additional three properties from Spectrum and one property from Melior in the second half of 2005.

Chartwell also believes that internal revenue growth will come from enhancing the already high occupancies in its owned properties and through the introduction of innovative new services to residents. It is also confident that overall profitability will increase as the REIT captures the economies of scale resulting from the growth in its portfolio, as well as enhanced efficiencies in administration, operations, purchasing and cost control. The REIT continues the implementation of its highly effective marketing programs throughout the portfolio, which had a positive effect on properties occupancies in the first six months of 2005.

In addition, as a component of its internal growth program, management intends to add new suites to existing facilities through property expansions. As of June 30, 2005, the REIT is engaged in the following projects, which continue to proceed on schedule and in line with budget expectations:

- Repositioning of the Gibson Long Term Care Centre to create additional preferred accommodation. This project has recently been completed and final Ministry approval has been obtained. Occupancy in this home has already started to increase and is expected to continue to increase through the remainder of 2005. The REIT invested approximately $2.6 million in this project.

- Addition of 16 suites at New Edinburgh Square Retirement Home. The expected completion date is the third quarter of 2005. Management estimates that the total project cost will amount to approximately $3.0 million and the REIT has obtained financing for 80% of the estimated cost.

- Repositioning of Devonshire Seniors Residence to configure 44 smaller outdated units into 22 units more attractive to the market place. This project was completed in the second quarter and the new accommodation is currently being leased up. Management estimates that the total project cost will amount to $2.5 million and the REIT has obtained financing for 80% of the estimated costs.

- A 97-suite addition at the 50% owned Le Monestere D'Aylmer. The expected completion date is the second quarter of 2006 and estimated total project costs are $11.6 million. Management estimates the REIT will invest approximately $2.1 million in the project.

- A 56-suite addition at the 50% owned Le Residence Principale Cowansville. The expected completion date is the second quarter of 2006 and estimated total project costs are $7.1 million. Management estimates the REIT will invest approximately $1.3 million in the project.

- A 42-suite addition at the 50% owned Residence de Hull, which opened at the end of the second quarter. The total project costs were $4.3 million. The REIT invested approximately $0.7 million in the project. The addition is now fully leased.

Overall demand for seniors housing continues to grow significantly in Canada, driven by positive demographics, increased life expectancy, and the fact that seniors are wealthier than ever before, better informed about the range of options available to them and are able to afford the level of service they want and need. Care Planning Partners (Seniors Housing Researchers) estimated that 11,000 new suites would be required each year until 2026 – just to maintain current supply levels. Chartwell believes it is well positioned to capitalize on this increase in demand.

On July 11, 2005 Chartwell completed its takeover and acquisition of CPAC (Care) Holdings Ltd. ("CPAC") of Vancouver, British Columbia, with this transaction, the REIT acquired interests in 977 suites in six facilities in British Columbia (including one development property and 93 condominium suites under development), and became the largest owner and operator of seniors residential facilities in the Province. The acquisition also provides Chartwell with an immediate presence in the B.C. licensed care sector and the opportunity to compete effectively in expanding its presence in this high-growth market through future proposal calls. After this acquisition, 19% of Chartwell's portfolio of owned and managed suites is located in British Columbia, further enhancing the REIT's geographic diversification. Subsequent to the closing of this acquisition, the REIT sold its interest in two acquired facilities to Spectrum. The purchase price of $3.9 million was satisfied by a mezzanine loan of $3.3 million and cash.

On July 19, 2005 Chartwell announced that, through a US subsidiary, it has formed a joint venture with ING Real Estate Australia Pty Limited, a subsidiary of ING Groep N.V. of the Netherlands, to acquire a portfolio of high quality retirement residences in Colorado and Texas totaling 1,043 suites. Chartwell and ING will each acquire a 50% interest in the portfolio. Chartwell also announced that it was forming a 50% joint venture seniors housing management entity with Horizon Bay Management LLC, a large and respected owner and operator of seniors residential facilities across the United States. The new entity will act as the property manager for Chartwell's new US portfolio and other seniors' residences in the US that Chartwell may acquire in the future.

With the completion of this transaction, anticipated in August, 2005, Chartwell extended its reach into the strong and growing US seniors housing market, aligned itself with one of that country's most respected and proven seniors housing management teams, and established a relationship with an equity partner with global access to deep and competitive sources of capital.

Following the completion of the US acquisition, Chartwell's total portfolio, including managed properties and those under development, will increase to 16,166 suites in 143 facilities. Chartwell's new US properties will account for approximately 6% of the total portfolio, further enhancing the REIT's geographic diversification. Approximately 69% of the total portfolio will be in the targeted independent living/light care sector of the business.

The REIT has, to date in 2005, completed or has under contract acquisitions totalling approximately $340 million. The REIT's acquisition target for 2005 is $400 million and it expects to achieve this target through the remainder of 2005.

Management expects that the above-mentioned acquisitions, other recently completed acquisitions and mezzanine financings and future contemplated acquisitions and mezzanine financings will result in Distributable Income per unit for the year increasing approximately 15% over last year.

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The REIT prepares its financial statements in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (GAAP). For a full discussion of the significant accounting policies and estimates, refer to the Management Discussion and Analysis section of Chartwell's 2004 Annual Report. The unaudited interim consolidated financial statements for the three month and six month periods ended June 30, 2005 follow the same accounting policies and methods of application.

Other Performance Measures

Distributable Income is presented because management believes this non-GAAP measure is a relevant measure of the ability of the REIT to earn and distribute cash returns to Unitholders. Distributable Income (defined as net earnings before depreciation and amortization, future income tax expense or credits, gains or losses on asset dispositions, amortization of discounts or premiums on long-term debt and deferred financing costs, interest on convertible debentures; plus up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for Long-Term Care facilities, amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP, and fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP) is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income as computed by the REIT may differ from similar computations as reported by other organizations and, accordingly, may not be comparable to distributable income as reported by such organizations.

Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP.

To the extent these fees are included in GAAP Net Income in subsequent periods, they will be deducted from Distributable Income.

The tables presented under the Results of Operations section of this MD&A provides the reconciliation of Distributable Income to Net Income and cash flow from operating activities, as reported on the REIT's consolidated financial statements.

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

The use of FFO, combined with the required primary GAAP presentations has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing the REIT's comparative operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates). FFO can help one compare the operating performance of a REIT's real estate between periods or as compared to different REITs.

RESULTS OF OPERATIONS

The selected information presented below is based on the unaudited consolidated financial results of the REIT for the three and six month periods ended June 30, 2005 and 2004.

In the following discussion, "same property" statistics for the three month periods ended June 30, 2005 and 2004 refer to 38 retirement homes and 7 long term care facilities that Chartwell owned for the full quarter in 2004 and in 2005. Same property statistics for the six month periods ended June 30, 2005 and 2004 refer to 35 retirement homes that Chartwell owned for the full six months in 2005 and 2004.

The following table compares the results of the REIT for the three and six months ended June 30, 2005 with the results for the three and six months ended June 30, 2004.

($000's except per unit amounts)	**For the three months ended June 30**			**For the six months ended June 30**		
	2005	**2004 (Restated)**	**Change**	**2005**	**2004 (Restated)**	**Change**
Revenue:						
Property revenue	46,188	27,519	18,669	87,627	49,485	38,142
Mezzanine loan interest	1,964	1,014	950	3,755	1,887	1,868
Fees:	-	-	-	-	-	-
Spectrum	1,303	444	859	2,311	621	1,690
Other	1,052	507	545	1,692	1,263	429
Other Income	360	106	254	460	427	33
	50,867	29,590	21,277	95,845	53,683	42,162
Expenses:						
Direct operating	(31,790)	(19,479)	(12,311)	(61,284)	(34,641)	(26,643)
General and administrative	(2,451)	(1,830)	(621)	(4,450)	(3,314)	(1,136)
	(34,241)	(21,309)	(12,932)	(65,734)	(37,955)	(27,779)
Income before interest, depreciation and amortization	16,626	8,281	8,345	30,111	15,728	14,383
Interest expense	(5,781)	(3,045)	(2,736)	(11,465)	(5,694)	(5,771)
Income before depreciation and amortization	10,845	5,236	5,609	18,646	10,034	8,612
Depreciation and amortization	(11,003)	(7,581)	(3,422)	(21,772)	(13,245)	(8,527)
Write down of carrying value of assets	-	(501)	501	(817)	(501)	(316)
Gain on sale of assets	103	-	103	103	-	103
Non-controlling interest	(11)	266	(277)	437	340	97
Net Income Loss	(66)	(2,580)	2,514	(3,403)	(3,372)	(31)
Add back (subtract):						
Depreciation and amortization	11,003	7,581	3,422	21,772	13,245	8,527
Amortization of deferred financing expenses	371	91	280	715	175	540
Amortization of below market leases	(436)	(304)	(132)	(851)	(564)	(287)
Amortization of debt premiums, net (1)	(311)	(184)	(127)	(700)	(346)	(354)
Write down of carrying value of assets	-	501	(501)	817	501	316
Gain on sale of assets	(103)	-	(103)	(103)	-	(103)
Principal portion of capital funding receivable	65	19	46	85	31	54
Amounts received under Net Operating Income Guarantee	463	871	(408)	770	871	(101)
Contractually receivable management fees, not included in net income under GAAP(2)	81	-	81	2,106	-	2,106
Non-controlling interest	11	(266)	277	(437)	(340)	(97)
Distributable income(3)	11,078	5,729	5,349	20,771	10,201	10,570
Weighted average number of units outstanding(3)	43,557,656	28,285,406	15,272,250	40,070,725	28,097,996	11,972,729
Dilutive LTIP	857,692	832,253	25,439	858,840	828,626	30,214
	44,415,348	29,117,659	15,297,689	40,929,565	28,926,622	12,002,943
Distributable income per unit – basic	0.254	0.203	0.052	0.518	0.363	0.155
Distributable income per unit – diluted	0.249	0.197	0.053	0.507	0.353	0.155
Distributions declared(4)	11,772	7,467	4,305	22,023	14,853	7,170
Distributions per unit – diluted	0.265	0.256	0.009	0.538	0.513	0.025
Payout ratio – diluted	106%	130%	(24%)	106%	146%	(40%)

(1) Includes amortization of debt discounts of $55 and $103 for the three and six months ended June 30, 2005 and $40 and $64 for the three and six months ended June 30, 2004, respectively.

(2) Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP.

(3) Includes the weighted average of $5,327,318 and $4,940,742 of outstanding Class B Units of Master LP for the three and six months ended June 30, 2005 and $2,950,569 and $2,767,827 for the three and six months ended June 30, 2004 respectively.

(4) Includes $1,425 and $2,694 of distributions declared on Class B Units of Master LP for the three and six months ended June 30, 2005 and $761 and $1,447 for the three and six months ended June 30, 2004 respectively.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

($000's)	For the three months ended June 30		For the six months ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Cash flow from operating activities	12,469	3,472	21,752	6,465
Add (Subtract):				
Change in non-cash operating items	(1,662)	1,600	(3,190)	3,289
Amortization of debt discounts	(55)	(40)	(103)	(64)
Amortization of debt premiums, net	(311)	(184)	(700)	(346)
Option benefit granted under the Long-Term Incentive Plan	-	(18)	-	(18)
Principal portion of capital funding receivable	65	19	85	31
Amounts received under Net Operating Income Guarantees	463	871	770	871
Contractually receivable management fees	81	-	2,106	-
Income from long-term investment net of distributions	28	9	51	(27)
Distributable Income	11,078	5,729	20,771	10,201

Reconciliation of Funds From Operations

($000's except per unit amounts)	For the three months ended June 30		For the six months ended June 30	
	2005	2004 (Restated)	2005	2004 (Restated)
Net loss per financial statements	(66)	(2,580)	(3,403)	(3,372)
Add (subtract):				
Depreciation of real estate assets	4,620	2,594	8,909	4,753
Amortization of management contracts, resident contracts and customer relationships	6,383	4,987	12,863	8,492
Depreciation of leasehold improvements included in depreciation of real estate assets	(20)	-	(30)	-
Write down of carrying value of assets	-	501	817	501
Non-controlling interest	11	(266)	(437)	(340)
Funds from Operations	10,928	5,236	18,719	10,034
Funds from Operations per unit diluted	0.246	0.180	0.457	0.347

Property Revenue

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Property Revenue	46,188	27,519	18,669	87,627	49,485	38,142

Three months ended June 30, 2005 and 2004:

- Acquisitions completed subsequent to March 31, 2004 contributed an increase of $17,505.
- Same property revenue increased by $1,164, an increased of 4.4%. This increase is primarily due to the following:
  - Improved occupancies in several retirement homes in Ontario and Western Canada.
  - Improved occupancies in Long Term Care facilities in Ontario.
  - Revenue from new services offered for residents.
  - Regular annual rent increases.

Six months ended June 30, 2005 and 2004:

- Acquisitions completed subsequent to January 1, 2004 contributed $35,999 of the increase.
- Same property revenue increased by $2,143, an increase of 7.0%. As discussed above, the increase is primarily attributable to the improved occupancy, new services offered to residents and regular annual rent increases.

Mezzanine Loan Interest

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Mezzanine Loan Interest	1,964	1,014	950	3,755	1,887	1,868

Mezzanine loan interest was higher in the three and six month periods ended June 30, 2005 as compared to same periods of last year due to higher average loan balances outstanding in 2005.

Fees

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Spectrum	1,303	444	859	2,311	621	1,690
Other	1,052	507	545	1,692	1,263	429
	2,355	951	1,404	4,003	1,884	2,119

Fees earned from Spectrum for the three months ended June 30, 2005 were higher than the fees in the second quarter of 2004 due to the following:

- In the second quarter of 2005, development management fees increased by $650 compared to the same period of 2004 as the REIT earned fees from 16 active development projects in 2005 compared to 8 active projects in 2004.

- In the second quarter of 2005, the REIT earned financing fees of $200 for arranging construction financing for one of Spectrum's projects. There were no financing fees earned in the second quarter of 2004.

- Operations management fees increased in the second quarter of 2005 compared to the same period of last year as Spectrum's properties in lease-up had higher occupancies, and fees earned from three new properties that opened subsequent to the second quarter of 2004. This was offset by the loss of fees from three Spectrum properties that the REIT acquired in 2005.

Fees earned from Spectrum for the six months ended June 30, 2005 increased due to the following:

- Development management fees increased by $1,316 due to the higher number of active projects under development.

- The REIT earned financing fees of $321 for arranging construction financing for two of Spectrum's projects. There were no financing fees earned in the first six months of 2004.

- Operations management fees were also higher as a result of higher occupancies in Spectrum lease-up properties and the contribution from three properties that opened subsequent to the second quarter of 2004. This was partially offset by the loss of fees from three of Spectrum's properties that the REIT acquired in 2005.

Fees from other third parties increased in the three and six month period ended June 30, 2005 as compared to the same periods of 2004 due to the following:

- Fees earned on 6 development projects amounted to $561 and $714 for the three and six months ended June 30, 2005 respectively. This compares to development management fees from third parties of $70 and $123 for the three and six months ended June 30, 2004.

- Operations management fees also increased in 2005 as compared to 2004 primarily due to better occupancies and regular rent increases in managed facilities.

- These increases were off-set by $297 of fees earned from the four properties operated in escrow in the six month period ended June 30, 2004. Chartwell ceased earning these fees on completion of the acquisition of these properties in February 2004.

Other Income

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Other Income	360	106	254	460	427	33

- Higher other income in the Second Quarter of 2005 was primarily due to the interest income earned on funds received from the Offering of REIT Units, which closed on March 30, 2004, that were not fully deployed in the quarter.

Direct Operating Expenses

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Direct Operating Expenses	(31,790)	(19,479)	(12,311)	(61,284)	(34,641)	(26,643)

Three months ended June 30, 2005 and 2004:

- Acquisitions completed subsequent to March 31, 2004 contributed $10,744 of the increase.
- Same property expenses increased by $786, an increase of 4.3%. This increase was primarily due to the following:

  - Cost of additional programs and services offered to residents in four Western Canada facilities. These programs and services were necessary to improve occupancies and have been effective to date.

  - Higher operating overhead costs.

- Direct operating expenses of management operations increased by $781 to support the higher revenue stream from the management business.

Six months ended June 30, 2005 and 2004:

- Acquisitions completed subsequent to January 1, 2004 contributed $23,381 of the increase.
- Same property expenses increased by $1,701, an increase of 9.4%. As discussed above, this increase is primarily attributable to cost of additional programs and services offered to residents and higher operating overhead costs.
- Direct operating expenses of management operations increased by $1,561 to support the higher revenue stream from management business.

General and Administrative

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004	Change	2005	2004	Change
General and Administrative	(2,451)	(1,830)	(621)	(4,450)	(3,314)	(1,136)
As % of total revenue	4.8%	6.2%	(1.4%)	4.6%	6.2%	(1.6%)

- Higher general and administrative costs were primarily due to the addition of new staff during 2004 and in the first six months of 2005 to manage Chartwell's current and future growth, and the resulting higher salaries, rental and general office expenses.

  In the first six months of 2005 professional, legal and accounting costs were higher than in the same period of last year due to the increased size of the REIT.

- For the three and six month periods ended June 30, 2005, general and administrative expenses as percentage of gross revenue declined as compared to the same periods of last year due to significant increase in revenue contributions from new acquisitions, mezzanine loans and fees.

Interest Expense

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004	Change	2005	2004	Change
Interest Expense	(5,781)	(3,045)	(2,736)	(11,465)	(5,694)	(5,771)

- Acquisitions completed subsequent to March 31, 2004 and January 1, 2004 contributed $2,710 and $5,219 of the increase for the three and six months ended June 30, 2005 respectively as compared to the same periods of 2004.

- The REIT incurred interest expense of $145 and $707 for the three and six months ended June 30, 2005 on its operating line and bridge loans. This compares to interest expense of $91 for the three and six month periods ended June 30, 2004.

Depreciation and Amortization

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004	Change	2005	2004	Change
Depreciation and Amortization	(11,003)	(7,581)	(3,422)	(21,772)	(13,245)	(8,527)

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

Non-controlling Interest

- In response to Emerging Issues Committee ("EIC") – 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which was issued on January 19, 2005, Chartwell REIT has adopted a new policy applicable to Class B Units of Master LP, a subsidiary of Chartwell REIT effective December 31, 2004. Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of unitholder's equity.

  The REIT adopted this change retroactively with the restatement of the prior period's Financial Statements.

- Non-controlling interest represents the amount of net loss allocable to the holders of Class B Units of Master LP.

Net Loss

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Net Loss for the period	(66)	(2,580)	2,514	(3,403)	(3,372)	(31)
Net Loss per unit	(0.002)	(0.102)	0.100	(0.097)	(0.133)	0.036

Net loss and net loss per unit for the three and six months ended June 30, 2005 decreased in comparison for the same periods of 2004 due to positive contributions from the REIT's acquisitions, mezzanine loans and management activities.

Distributable Income and Distributions

($000's)	For the three months ended June 30			For the six months ended June 30		
	2005	2004	Change	2005	2004	Change
Distributable Income(1)	11,078	5,729	5,349	20,771	10,201	10,570
Distributions Declared(2)	11,772	7,467	4,305	22,023	14,853	7,170
Weighted average number of units outstanding (diluted)(3)	44,415,348	29,117,659	15,297,689	40,929,565	28,926,622	12,002,943
Distributable Income per unit – diluted	0.249	0.197	0.053	0.507	0.353	0.155
Distributions per unit – diluted	0.265	0.256	0.009	0.538	0.513	0.025
Payout Ratio – diluted	106%	130%	(24%)	106%	146%	(40%)

(1) Effective January 1, 2005, the Board of Trustees adjusted the computation of Distributable Income to include fees that are contractually receivable in the reporting period and are not included in Net Income under GAAP.

(2) Includes $1,425 and $2,694 of distributions declared on Class B Units of Master LP for the three and six months ended June 30, 2005 and $761 and $1,447 for the three and six months ended June 30, 2004 respectively.

(3) Includes the weighted average of $5,327,318 and $4,940,742 of outstanding Class B Units of Master LP for the three and six months ended June 30, 2005 and $2,950,569 and $2,767,827 for the three and six months ended June 30, 2004 respectively.

- Distributable income and distributable income per unit increased in the three and six month period ended June 30, 2005 as compared to the same periods in 2004 primarily due to the positive contributions of acquisitions, lending and management activities.

- Distributions declared are higher for the three and six months ended June 30, 2005 due to the following:

  - The higher number of Units outstanding as the REIT issued 12.5 million new Units pursuant to two public offerings completed since June 30, 2004. In addition, the REIT has issued 2.3 million of Class B Units on the acquisition of properties since June 20, 2004. Additional REIT Units were also issued on the acquisition of one senior's housing facility and pursuant to the Distribution Reinvestment Program since June 30, 2004.

- The REIT increased its monthly distribution from 0.08540 per unit to 0.008875 per unit effective March 30, 2005.

SEGMENTED INFORMATION

The following discussion and analysis provides information on the financial results for each operating segment of the REIT for the three and six month periods ended June 30, 2005 compared to the three and six month periods ended June 30, 2004 and discusses future financial trends.

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

Retirement Operations

The following table represents the results of operations and financial position of the retirement operations segment of the REIT for the three and six month periods ended June 30, 2005 and 2004.

$000's	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenues	33,903	17,227	16,676	65,110	33,336	31,774
Direct Operating Expenses	(20,098)	(10,278)	(9,820)	(39,385)	(20,184)	(19,201)
	13,805	6,949	6,856	25,725	13,152	12,573
Interest Expense	(5,047)	(2,614)	(2,433)	(10,177)	(4,975)	(5,202)
Income before depreciation and amortization	8,758	4,335	4,423	15,548	8,177	7,371
Depreciation and amortization	(9,947)	(5,411)	(4,536)	(19,239)	(10,337)	(8,902)
Gain on sale of assets	103	-	103	103	-	103
Write down of carrying value of assets	-	-	-	(817)	-	(817)
Net Loss for the period	(1,086)	(1,076)	(10)	(4,405)	(2,160)	(2,245)
Operating Margins(1)	40.0%	39.3%	0.7%	38.7%	38.4%	0.3%

	At June 30, 2005	At June 30, 2004 (restated)	Change
Assets	668,422	411,526	256,896
Liabilities	398,495	246,944	151,551

(1) Operating margin is defined as net operating income as a percentage of revenue excluding the amortization of below market resident contracts of $436 and $304 for the three months ended June 30, 2005 and June 30, 2004 respectively, and $851 and $564 for the six months ended June 30, 2005 and June 30, 2004 respectively.

Revenues

The following tables summarize changes in retirement operations revenue for the three and six months ended June 30, 2005 from the same periods of 2004.

	Three months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	16,426	911	15,515
Same Property	17,477	16,316	1,161
Total	33,903	17,227	16,676

	Six months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	32,438	2,807	29,631
Same Property	32,672	30,529	2,143
Total	65,110	33,336	31,774

- Acquisitions of 32 retirement residences since March 31, 2004 (34 retirement residences since January 1, 2004) contributed 90% and 89% of revenue increases for the three and six months ended June 30, 2005 from the same periods of last year, respectively.

- Same property revenues increased by 7% for the three and six month period ended June 30, 2005 due to the following:

  - A facility in Western Canada that was acquired in lease-up with an accompanying income guarantee achieved stabilized occupancy in the first quarter of 2005.
  - Additional resident services were introduced in four facilities in Alberta. The REIT constructed new kitchens and added on-site food services in two independent retirement facilities. The REIT also contracted with local health authorities to provide funded home care in the other two facilities.
  - Improved occupancies in the retirement homes portfolio and regular annual rent increases also contributed to increases in revenues.

- Overall occupancy in retirement portfolio was 92% as of June 30, 2005, consistent with occupancies at March 31, 2005 and December 31, 2005.

Direct Operating Expenses

The following tables summarize changes in direct operating expenses of the retirement operations for the three and six months ended June 30, 2005 from the same periods of 2004:

	Three months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	(9,813)	(760)	(9,053)
Same Property	(10,285)	(9,518)	(767)
Total	(20,098)	(10,278)	(9,820)

	Six months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	(19,521)	(2,021)	(17,500)
Same Property	(19,864)	(18,163)	(1,701)
Total	(39,385)	(20,184)	(19,201)

- Acquisitions of 32 retirement residences since March 31, 2004 (34 retirement residences since January 1, 2004) contributed 88% and 87% of direct operating expenses increased for the three and six months ended June 30, 2005 from the same periods of last year, respectively.

- Same property direct operating expenses increased by 8% and 9% for the three and six month period ended June 30, 2005, as compared to the same periods of last year, due to the following:

  - The cost associated with the additional resident services which were introduced in four facilities in Alberta.
  - The higher property operating overheads attributable to the addition of senior operations management personnel in 2004 and the first half of 2005.

Operating Margins

Retirement operations operating margins in the second quarter of 2005 were 40.0% compared to 39.3% in the second quarter of 2004.

Operating margins for the six months ended June 30, 2005 were 38.7%, an increase from 38.4% in the same period of last year.

The increase in operating margins for the six month period ended June 30, 2005 compared to the six month period ended June 30, 2004 is attributable to the following:

- The increased number of independent facilities in the retirement portfolio. These facilities normally generate higher operating margins due to the limited services provided to residents.

- Increase in occupancies in the retirement home portfolio.

These factors were partially offset by the addition of new resident service programs introduced in certain facilities, including the aforementioned Western Canada properties. These programs although they generate positive NOI contribution, normally operate at a lower margin, which dilutes the overall portfolio margins.

In addition to the above mentioned factors, the margins for the second quarter of 2005 were higher than the first quarter of 2005 due to the lower operating costs in the second quarter as a result of seasonality associated with utility costs, which are higher in the winter months.

Interest Expense

The increase in interest costs is due to the acquisitions completed in 2004 and the first six months of 2005.

Depreciation and Amortization

The increase in depreciation and amortization expenses was due to the acquisitions completed in 2004 and the first half of 2005.

Net Loss

Net loss for the three and six month periods ended June 30, 2005 increased, as compared to the same periods in 2004, as the positive net operating income contribution from new acquisitions, new services introduced at certain facilities and improved occupancies was offset by higher interest and depreciation and amortization expenses.

The REIT also recorded a write-down of carrying value of one retirement home in the First Quarter of 2005.

Long-Term Care Operations

The following table represents results of operations and financial position of the long-term care operating segment for the three and six months ended June 30, 2005 as compared to the three and six months ended June 30, 2004.

$000's	For the three months ended June 30			For the six months ended June 30		
	2005	2004 (Restated)	Change	2005	2004 (Restated)	Change
Revenues	12,285	10,292	1,993	22,517	16,149	6,368
Direct Operating Expenses	(10,621)	(8,911)	(1,710)	(19,765)	(13,884)	(5,881)
	1,664	1,381	283	2,752	2,265	487
Interest Expense	(734)	(431)	(303)	(1,288)	(719)	(569)
Income before depreciation and amortization	930	950	(20)	1,464	1,546	(82)
Depreciation and amortization	(625)	(1,671)	1,046	(1,652)	(1,850)	198
Net Income (Loss) for the period	305	(721)	1,026	(188)	(304)	116
Operating Margins	13.5%	13.4%	0.1%	12.2%	14.0%	(1.8%)

	As June 30, 2005	At June 30, 2004 (restated)
Assets	88,609	65,733
Liabilities	56,622	42,614

Revenues

The following tables summarize changes in long term care operations' revenues for the three and six month periods ended June 30, 2005 as compared to same periods of 2004:

	Three months ended		
	June 30, 2005	June 30, 2004 (restated)	$ Change
Acquisitions	1,990	-	1,990
Same Property	10,295	10,292	3
Total	12,285	10,292	1,993

	Six months ended		
	June 30, 2005	June 30, 2004 (restated)	$ Change
Acquisitions	22,517	16,149	6,368
Same Property	-	-	-
Total	22,517	16,149	6,368

- The acquisition of 1 long term care facility since March 31, 2004 (8 long term care facilities since January 1, 2004) contributed $1,990 and $6,368 of revenue increases for the three and six month periods ended June 30, 2005 as compared to same periods of last year.

- Same property revenues remained flat in the three month period ended June 30, 2005 as funding increases were off-set by occupancy issues experienced by two long term care facilities.

- A facility which previously faced competitive pressures in its market place has recently attained stabilized occupancy.

- As previously mentioned in the "Outlook" section of the MD&A, the repositioning of the Gibson Long Term Care Centre has recently been completed. Occupancy in this facility has already started to increase and is expected to continue to do so through the remainder of 2005.

- Effective July 1, 2005, the Ontario Government announced a 1.5% increase in funding to the accommodation envelope for long-term care facilities. This will result in approximately $200 of additional revenue to the REIT on an annualized basis assuming stabilized occupancy in the applicable facilities.

Direct Operating Expenses

The following tables summarize changes in long term care direct operating expenses for the three and six month periods ended June 30, 2005 as compared to the same periods of 2004.

	Three months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	(1,691)	-	(1,691)
Same Property	(8,930)	(8,911)	(19)
Total	(10,621)	(8,911)	(1,710)

	Six months ended		
	June 30, 2005	**June 30, 2004 (restated)**	**$ Change**
Acquisitions	(19,765)	(13,884)	(5,881)
Same Property	-	-	-
Total	(19,765)	(13,884)	(5,881)

- The acquisition of one long term care facility since March 31, 2004 (acquisitions of 8 long term care facilities since January 1, 2004) contributed $1,691 and $5,881 of increases in direct operating expenses for the three and six month periods ended June 30, 2005 as compared to the same periods of last year.

- Same property expenses remained flat in the three month period ended June 30, 2005 as management was able to reduce facilities' staffing and other variable expenses in two facilities that experienced occupancy issues in the quarter, which offset inflationary expense increases.

Operating Margins

Long term care operations operating margins in the second quarter of 2005 were 13.5% as compared to 13.4% in the same period of last year.

Operating margins for the six months ended June 30, 2005 were 12.2% as compared to 14.0% margins in the same period of last year.

- Operating margins for the three months ended June 30, 2005 were similar to margins in the same period of last year as management was able to reduce operating expenses to compensate for lost revenue due to the occupancy issues at two long term care facilities.

- Long term care operating margins significantly declined in the first six months of 2005 as compared to the same period of 2004 due to the occupancy issues experienced at two long term care facilities in Ontario.

Interest Expense

- The increase in interest costs is primarily due to acquisitions.

Depreciation and Amortization

Depreciation and amortization decreased in the three and six month periods ended June 30, 2005 as compared to the same periods of last year as resident contracts of $4.1 million acquired as part of acquisitions of long term care facilities in 2004 were fully amortized by March 31, 2005.

Net Income (Loss)

The increase in net income (decrease in net loss) is due to lower depreciation and amortization costs as discussed above.

Management Operations

$000's	For the three months ended June 30			For the six months ended June 30		
	2005	2004	Change	2005	2004	Change
Revenues	2,355	951	1,404	4,003	1,884	2,119
Direct Operating Expenses	(1,071)	(290)	(781)	(2,134)	(573)	(1,561)
	1,284	661	623	1,869	1,311	558
Interest Expense	-	-	-	-	-	-
Income before depreciation and amortization	1,284	661	623	1,869	1,311	558
Depreciation and amortization	(431)	(499)	68	(881)	(1,058)	177
Write down of carrying value of assets	-	(501)	501	-	(501)	501
Net Income (Loss) for the period	853	(339)	1,192	988	(248)	1,236
Operating Margins	54.5%	69.5%	(15.0%)	46.7%	69.6%	(22.9%)

	As June 30, 2005	At June 30, 2004
Assets	14,832	16,832
Liabilities	2,106	-

Revenues

Fees earned from Spectrum for the three months ended June 30, 2005 were higher than the fees earned in the three months ended June 30, 2004 due to the following:

- In the second quarter of 2005, development management fees increased by $650 compared to the same period of 2004 as the REIT earned fees from 16 active development projects in 2005 compared to 8 active projects in 2004.
- In the second quarter of 2005, the REIT earned financing fees of $200 for arranging construction financing for one of Spectrum's projects. There were no financing fees earned in the second quarter of 2004.
- Operations management fees also increased in the second quarter of 2005 compared to the same period of last year as Spectrum's properties in lease-up had higher occupancies, and contribution from three properties that opened subsequent to the second quarter of 2004. This was offset by the discontinuation of fees from three Spectrum's properties that REIT acquired in 2005.

Fees earned from Spectrum for the six months ended June 30, 2005 increased due to the following:

- Development management fees increased by $1,316 due to the higher number of active projects under development.

- The REIT earned financing fees of $321 for arranging construction financing for two of Spectrum's projects. There were no financing fees earned in the first six months of 2004.

- Operations management fees were also higher as Spectrum's lease-up projects had higher occupancies and the contributions from three properties that opened subsequent to the second quarter of 2004. This was partially offset by the discontinuation of fees from three of Spectrum's properties sold to the REIT in 2005.

Fees from other third parties increased in the three and six month period ended June 30, 2005 as compared to the same periods of 2004 due to the following:

- Fees earned on 6 development projects amounted to $561 and $714 for the three and six months ended June 30, 2005 respectively. Development management fees from third parties amounts to $70 and $123 for the three and six months ended June 30, 2004.

- Fees for the six months ended June 30, 2004 included $297 earned from the four properties operated in escrow. Chartwell ceased earning these fees on completion of the acquisition of these properties in February 2004.

- Operations management fees also increased in 2005 as compared to 2004 primarily due to better occupancies and regular rent increases in managed facilities.

In the First Quarter of 2005, the REIT completed agreements in respect of 4 new development projects with aggregate fees amounting to $3,114. Due to the nature of the related agreements, these fees did not qualify for immediate recognition under GAAP and will be recorded as income over the terms of the REIT's involvement in these projects. For the six month period ended June 30, 2005, the REIT recognized $503 of these fees as revenue in the financial statements. At June 30, 2005, deferred revenue included $2,106 related to fees collected on these projects.

Effective January 1, 2005, the REIT's Board of Trustees adjusted the computation of Distributable Income to include such contractually receivable fees (refer to "Other Performance Measures" section of this MD&A).

Management anticipates that management operations will continue to generate significant revenues and Distributable Income for the REIT in 2005 and beyond.

Direct Operating Expenses

Direct operating expenses increased in the three and six month periods ended June 30, 2005 as compared to the same periods of 2004 as more management efforts were required to support the higher revenue stream and structure new development projects with Spectrum and other parties.

Operating Margins

Operating margins decreased as the increase in fees did not fully offset higher operating expenses incurred to structure new development projects and support operations management activities.

Depreciation and Amortization

Depreciation and amortization is decreased due to the write-down of four management contracts and related customer relationships on cancellation of these contracts in 2004, as well as the reduction in carrying value of management contracts and customer relationships on acquisition of one long term care facility, previously managed by the REIT in the second quarter of 2005.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes the REIT's quarterly financial information:

($000's, except per unit amounts)	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005	Three Months Ended December 31, 2004	Three Months Ended September 30, 2004 (restated)	Three Months Ended June 30, 2004 (restated)	Three Months Ended March 31, 2004 (restated)	Period From November 14, 2003 to December 31, 2003 (restated)
Revenues	$ 50,867	$ 44,978	$ 45,406	$ 38,691	$ 29,590	$ 24,093	$ 9,220
Direct Operating Expenses	(31,790)	(29,494)	(27,161)	(23,366)	(19,479)	(15,162)	(5,170)
General, Administrative and Trust Expenses	(2,451)	(1,999)	(2,024)	(1,513)	(1,830)	(1,484)	(1,415)
Income before interest, depreciation and amortization	16,626	13,485	16,221	13,812	8,281	7,447	2,635
Interest Expense	(5,781)	(5,684)	(6,521)	(4,686)	(3,045)	(2,649)	(1,236)
Depreciation and Amortization	(11,003)	(10,769)	(10,671)	(9,270)	(7,581)	(5,664)	(3,006)
Write down of carrying value of assets	-	(817)	(1,159)	-	(501)	-	-
Gain on sale of assets	103						
Non-controlling interest	(11)	448	196	3	266	74	103
Net Loss for the period	(66)	(3,337)	(1,934)	(141)	(2,580)	(792)	(1,504)
Add Back:							
Depreciation and Amortization	11,003	10,769	10,671	9,270	7,581	5,664	3,006
Amortization of Deferred Financing Costs	371	344	1,363	452	91	84	41
Amortization of Below Market Leases	(436)	(415)	(409)	(384)	(304)	(260)	(125)
Amortization of Debt Premiums	(311)	(389)	(74)	(281)	(184)	(162)	(75)
Gain on sale of assets	(103)						
Write down of carrying value of assets	-	817	1,159	-	501	-	-
Principal portion of Capital Funding Receivable	65	20	19	19	19	12	-
Amounts received under the Net Operating Income guarantee	463	307	546	466	871	-	-
Fees contractually receivable	81	2,025	-	-	-	-	-
Non-controlling interest	11	(448)	(196)	(3)	(266)	(74)	(103)
Distributable Income	11,078	9,693	11,145	9,398	5,729	4,472	1,240
Distributable Income Per Unit, diluted	0.249	0.259	0.305	0.285	0.197	0.158	0.045

Chartwell REIT's quarterly results for the past 5 quarters have been affected by the acquisition of new facilities and an increase in revenue resulting from higher development management and financing activities.

General, Administration and Trust Expenses have increased over the past 5 quarters to provide additional infrastructure to support the REIT's growth.

Per unit amounts on a quarterly basis have been impacted by timing of the issuance of trust units by the REIT.

FINANCIAL POSITION

($000's)	June 30, 2005	December 31, 2004
Real Property Investments	$665,970	$588,812
Mezzanine Loans	58,020	52,021
Total Assets	**837,394**	**740,252**
Mortgages Payable	419,050	374,520
Loans Payable	11,716	41,518
Total Liabilities	**461,172**	**440,678**
Non-controlling Interest	52,753	40,279
Unitholders' Equity	323,469	259,295
Total Liabilities and Equity	**837,394**	**740,252**

The increase in total assets as at June 30, 2005 compared to December 31, 2004 is due primarily to the acquisition of 10 seniors housing facilities that were completed in the first six months of 2005.

Mortgages payable increased from December 31, 2004 due to the financing attributable to acquisitions completed in the period and mortgages assumed on these same transactions. This was partially offset by mortgage principal repayments and the retirement of long-term debt of approximately $21.1 million. The REIT re-paid the outstanding balance on its line of credit with the proceeds from the equity issue completed on March 30, 2005, and paid down one bridge loan from the proceeds of permanent re-financing of the property.

The non-controlling interest increased from December 31, 2004 mainly due to the issuance of approximately 1.2 million Class B Units of Master LP valued at $16.1 million, offset by $2.7 million of distributions paid on these units.

Outstanding Units Data

The following table summarizes the information with respect to the units outstanding as of June 30, 2005 and December 31, 2004.

($000's)	June 30, 2005	December 31, 2004
Trust Units	38,273,539	31,913,005
LTIP Units under subscription	852,500	860,000
	39,126,039	32,773,005
Class B Units of Master LP	5,380,293	4,213,149
	44,506,332	36,986,154

During the six months period ended June 30, 2005, the REIT issued 6,250,000 Trust Units pursuant to Public Offering, 54,091 Trust Units under its Distribution Reinvestment Program and 1,206,087 Class B Units of Master LP on the acquisition of five seniors housing facilities. In addition, holders of 48,943 Class B Units of Master LP exchanged them for the REIT Units. The holders of 7,500 of LTIP Units under subscription disposed of their Units in the six month period ended June 30, 2005 as a result of their termination as employees of the REIT.

PROPERTY PORTFOLIO

The following table summarizes the composition of Chartwell's real estate portfolio of owned facilities as at June 30, 2005, December 31, 2004 and June 30, 2004:

As at	June 30, 2005	December 31, 2004	June 30, 2004
Number of suites	7,643	6,818	5,043
Number of properties	77[(1)]	68[(1)]	53[(3)]
Composition (based on the number of suites):			
Independent living	29%	30%	24%
Retirement homes	57%	55%	61%
Long-Term Care facilities	14%	15%	15%

(1) Includes 8 properties in which Chartwell holds a 50% interest, and 1 facility in which Chartwell holds a 39% interest.
(2) Includes 1 facility in which Chartwell holds a 39% interest.
(3) Includes 7 properties in which Chartwell holds a 50% interest.

During the six months ended June 30, 2005, the REIT acquired 10 properties (858 suites). In the first six months of 2005 suites conversions and reconfigurations reduced the owned portfolio suite count by 18 suites. The REIT also disposed of a 15 unit retirement home in this period.

As of June 30, 2005, the REIT's owned portfolio is geographically diversified with 54% of total suites situated in Ontario, 32% in Quebec, 7% in Alberta and 7% in British Columbia.

MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at June 30, 2005:

Year	Regular Principal Payments	Principal Due at Maturity	Total	Weighted Average Interest Rate of Maturing Debt
2005	6,328	30,303	36,631	4.85%
2006	11,246	31,984	43,230	4.34%
2007	10,718	27,600	38,318	4.56%
2008	10,734	34,785	45,519	5.57%
2009	6,606	102,974	109,580	4.72%
2010-2015	21,177	102,345	123,522	5.77%
2016-2025	7,350	14,900	22,250	6.37%
Total	74,159	344,891	419,050	

The average term to maturity for the total mortgage is approximately 5.0 years (December 31, 2004 – 5.0 years), and the weighted average interest rate is 5.17% (December 31, 2004 – 5.23%). Management is pursuing a strategy of increasing the average term to maturity of the mortgage portfolio by seeking longer terms on new mortgage debt.

In the second quarter of 2005, the REIT arranged new mortgage financing (or refinanced existing mortgages) for 3 of its facilities in the aggregate amount of $23.6 million. This debt bears interest at a weighted average rate of 5.5% and matures on various dates up to May, 2025.

In addition, the REIT arranged for new variable debt on 3 of its internal growth projects and 1 facility in lease-up. These loans amount to $7.6 million and bear interest at the rates ranging from Prime plus 0.5% to Prime plus 3% and mature on various dates up to December, 2007.

In the second quarter of 2005, the REIT assumed mortgages totaling $17.2 million bearing weighted average interest rate of 5.35% and maturing on various dates up to May 2012.

During the first Quarter of 2005, the REIT assumed mortgages totaling $5.0 million bearing a weighted average interest rate of 6.03%, and arranged new mortgage financing (or refinanced assumed mortgages) for 5 of its facilities in the aggregate amount of $12.0 million. These mortgages bear interest at a weighted average rate of 5.9% and mature on various dates up to February 2014.

The REIT had $15.5 million of variable rate mortgage debt outstanding at June 30, 2005. This debt primarily relates to internal growth projects and facilities in lease-up in the Province of Quebec. The REIT anticipates to convert these loans into permanent fixed rate debt upon completion of internal growth projects or stabilization of the facilities in lease-up.

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

The maximum debt leverage permitted by Chartwell's Declaration of Trust is 60%. At June 30, 2005 Chartwell's debt leverage ratio was 48.5%. If Chartwell were to increase its borrowing to the maximum 60% allowed under its declaration of trust, it would increase its available cash by approximately $103 million. This would allow the REIT to acquire approximately $257 million of new assets. Management of the REIT does not expect that its debt leverage ratio will exceed 55% on a long-term basis.

CONTRACTUAL OBLIGATIONS

The REIT's major contractual obligations as at June 30, 2005 were as follows:

Payment due by Period	**(000's of dollars)**						
	Total	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**
Mortgages Payable	419,050	36,631	43,230	38,318	45,519	109,580	145,772
Loans Payable	11,716	11,716					
Operating Leases	4,682	224	425	455	477	477	2,624
Land Rent	7,119	63	126	126	126	126	6,552
Mezzanine Loan Funding Obligations	15,217	15,217	-	-	-	-	-
Purchase Obligations	69,781	60,531	9,250	-	-	-	-
Total Contractual Obligations	527,565	124,382	53,031	38,899	46,122	110,183	154,948

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

Land rent relates to an obligation assumed by Chartwell in respect of a land lease which expires on July 17, 2061 with annual payments of $0.126 million.

Mezzanine loan funding obligations relate to approved loans to Spectrum and other parties to fund the development and lease-up of 6 retirement residences in Quebec, Ontario and British Columbia. Partial advances on 3 of these projects were made prior to June 30, 2005.

Purchase obligations relate to the following:

- The acquisition of all outstanding shares of CPAC are approximately $48.4 million. This acquisition was completed subsequent to June 30, 2005 (see Subsequent Events).

- Three contingent considerations in respect of completed acquisitions:

    - $4.25 million contingent upon the property achieving certain operating targets, the measurement of which is to be made annually commencing in December 31, 2005.

    - $5.0 million in respect of certain suites being added to the acquired facility, payable in installments commencing in the year ended December 31, 2005 and conditional upon the property achieving certain operating targets.

    - $0.68 million in respect of two properties upon these properties achieving predetermined income targets over a three-year period.

- Deferred purchase consideration of $2 million related to the acquisition of a retirement home in Ontario that is due on the earlier of:

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

- Commitments with respect to various construction contracts, related to the REIT's internal growth projects, are in the amount of approximately $15.5 million.

LIQUIDITY AND CAPITAL RESOURCES

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

Chartwell's principal source of liquidity is cash flow from operations. The REIT has arranged for a secured revolving operating facility to $55 million. As of June 30, 2005, $3.3 million was outstanding on this facility with the remaining $51.7 million available to the REIT. Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on March 14, 2006. The term may be extended with the consent of the lenders for additional 364 day periods.

The REIT has received approval to increase the size of the operating facility to $70 million subject to the completion of necessary documentation and the provision of additional security.

In the second quarter, the REIT paid down one of its Bridge Loan facilities by $3.9 million from the proceeds of permanent financing on one seniors housing facility.

During the First Quarter of 2005, Chartwell repaid $4.1 million outstanding on one Bridge Loan from the proceeds of the refinancing of a property. Chartwell also arranged an additional bridge loan for another facility in amount of $3.6 million of which $3.35 million was utilized at March 31, 2005. As of June 30, 2005, Chartwell had $8.5 million outstanding on two Bridge Loans secured by second charges over three properties.

The REIT completed an offering of Trust Units on March 30, 2005, issuing 6.25 million trust units at $14.45 per unit. The net proceeds after payment of $5.1 million of issue costs amounted to $85.2 million. The proceeds were used to repay the balances outstanding under the REIT's credit facilities, to finance acquisitions, mezzanine loans and for general corporate purposes.

On August 4, 2005, the REIT agreed to issue 10,250,000 Trust Units at $15.20 per unit and filed a prospectus with securities regulators.

Due to the issues discussed under Distributable Income and Distributions section of this MD&A, the REIT's total distributions for the three and six months ended June 30, 2005 exceeded the amount of its Distributable Income. These excess distributions were financed from the REIT's credit facilities. Management believes that the REIT will generate sufficient cash from its activities to maintain its current level of distributions.

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

Capital Expenditures

For the three and six month period ended June 30, 2005, the REIT incurred $9.2 million and $11.5 million of capital additions to its properties, respectively. These expenditures fall within the following major categories:

- Building improvements and additions include capital expenditures that increase revenue generating potential of the properties such as additions of new units and capital expenditures incurred in order to introduce new services to residents.

- 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 additions to real estate properties are reduced by the amounts receivable under the Net Operating Income guarantees provided to the REIT by the vendor of certain facilities acquired in 2004, and reduced by the carrying amount of the property sold in the second quarter of 2005.

The following table summarizes additions to properties for the three and six months ended June 30, 2005:

(000's)	Three months ended June 30, 2005	Six months ended June 30, 2005
Building improvements and additions	8,448	9,619
Long-Term Replacement Items	160	471
Furniture, Fixtures and Equipment	344	988
Other	282	422
	9,234	11,500

Cash Flows

The following table summarizes Chartwell's cash flows for the three and six month periods ended June 30, 2005 and 2004:

	Three month periods ended		Six month periods ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Cash provided by (used in):				
Operating Activities	12,469	3,472	21,752	6,465
Financing Activities	6,949	12,959	55,579	42,716
Investing Activities	(56,700)	(30,587)	(70,115)	(88,149)
Increase (decrease) in each:				
and cash equivalent	(37,282)	(14,156)	7,216	(38,968)

Three months period ended June 30, 2005 and 2004:

Cash provided by operating activities was higher in 2005 than that in 2004 due to positive funds from operations from the contribution of new acquisitions, lending and management activities.

Cash provided by financing activities decreased primarily due to larger mortgage principal repayments and higher distributions paid as more REIT and Class B Units were outstanding in the second quarter of 2005 as compared to the second quarter of 2004.

Cash used in investing activities was increased due to higher cash component of the purchase price of properties acquired in the second quarter of 2005 and higher capital additions to properties mainly for internal growth projects and mezzanine loans advances.

Six month period ended June 30, 2005 and 2004:

Cash provided by operating activities increased due to positive funds from operations from contributions of new acquisitions, lending and management activities.

Cash provided by financing activities increased primarily due to the proceeds of a secondary offering of REIT Units completed on March 30, 2005 in the net amount of $85.2 million. This was offset by higher distributions and lower proceeds from new mortgage financing than in the comparable period of 2004.

Cash used in investing activities decreased primarily due to the lower cash component of the purchase price of properties acquired in 2005, offset by higher capital additions to the properties, mainly for internal growth projects and higher mezzanine loans advances.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the three and six months ended June 30, 2005:

i) Under the terms of the Development Agreement with Spectrum, a company controlled by the senior management of the REIT (including Stephen Suske, Vice Chairman and President, Robert Ezer, Chief Executive Officer, Brent Binions, Executive Vice President, Leslie Veiner, Chief Financial Officer, Richard Noonan, Chief Operating Officer and Peter Gaskill, Senior Vice President, Development), the REIT provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

As of June 30, 2005, mezzanine loans receivable from Spectrum amounted to $35.5 million (December 31, 2004 - $42.8 million). These loans bear interest at rates between 10% and 14% and are secured by second charges or pledges of Spectrum's interests in 27 seniors' housing development properties.

During the three-month and six-month periods ended June 30, 2005, Chartwell REIT earned mezzanine loan interest of $1.3 million and $2.8 million respectively from Spectrum. During the three-month and six-month periods ended June 30, 2005, Chartwell REIT earned management fees of $1.1 million and $2.0 million, respectively in respect of these services.

In addition, Chartwell REIT earned $0.2 million and $0.3 million in financing fees from Spectrum during the three-month and six-month periods ended June 30, 2005, respectively.

Other assets as of June 30, 2005 include $1.5 million due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to June 30, 2005, $1.3 million of this balance was repaid. In addition, other assets include advances of $0.1 million due from a joint venture where Spectrum holds a 72.5% interest.

Included in distributions payable at June 30, 2005 is $0.2 million due to Spectrum.

ii) In the second quarter of 2005, Chartwell acquired two seniors housing facilities from Spectrum – the Bridlewood Retirement Residence, a 59-suite facility in Gloucester, Ontario and the Collegiate Heights Retirement Residence, a 71-suite facility in Sault Ste. Marie, Ontario. The total purchase price for these acquisitions amounted to $19.4 million and was settled by assumption of a mortgage payable of $4.3 million, issuance of 91,637 Class B Units of Master LP valued at $1.3 million, settlement of mezzanine loans payable of $7.0 million and cash. In the first quarter of 2005, the REIT acquired from Spectrum the Glacier Ridge Retirement Home, a 78 unit facility in Thunder Bay, Ontario.

The purchase price of $10.7 million, before closing costs was satisfied by a cash payment of $5.4 million used to retire the existing construction debt, the issuance of 79,909 Class B Units of Master LP valued at $1.2 million, and the settlement of a mezzanine loan receivable of $4.1 million.

iii) As of June 30, 2005, the REIT had mezzanine loans receivable of $22.6 million from three of Spectrum's joint venture partners (including $19.5 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 Borrower's interests in 10 development projects.

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

iv) During the three and six month periods ended June 30, 2005, the REIT earned interest income of $0.5 and $0.8 million, respectively and fees of $0.6 and $0.7 million from Melior.

Accounts receivable at June 30, 2005 include $0.6 million due from Melior and deferred revenue includes $2.1 million collected from Melior.

Subsequent Events

In July, Chartwell advanced two mezzanine loans totaling $4.3 million to Spectrum and other parties. These loans bear interest at 10%.

On July 11, 2005 Chartwell completed the acquisition of all outstanding shares of CPAC (Care) Holdings Inc. for an aggregate purchase price of $48.4 million.

On July 19, 2005 Chartwell announced that it had agreed to acquire a 50% interest in six seniors' housing facilities in the United States for a purchase price of $143.9 million.

On August 4, 2005 Chartwell agreed to issue 10,200,000 Trust Units at $15.20 per unit and filed a prospectus with securities regulators.

Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Three-month and six-month periods ended June 30, 2005
(Unaudited)

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

	June 30, 2005	December 31, 2004
	(Unaudited)	
Assets		
Properties (note 3)	$ 665,970	$ 588,812
Mezzanine loans receivable (note 4)	58,020	52,021
Management contracts, resident contracts and customer relationships (note 5)	50,357	55,055
Cash and cash equivalents	7,511	295
Other assets (note 6)	35,092	25,639
Licenses	9,730	8,130
Goodwill (note 5)	10,714	10,300
	$ 837,394	$ 740,252
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	$ 419,050	$ 374,520
Loans payable (note 8)	11,716	41,518
Accounts payable and other liabilities (note 9)	26,457	21,482
Distributions payable	3,949	3,158
	461,172	440,678
Non-controlling interest (note 10)	52,753	40,279
Unitholders' equity	323,469	259,295
Commitments and contingencies (notes 15 and 16)		
Subsequent events (note 20)		
	$ 837,394	$ 740,252

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee

"Victor Durman" Trustee

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30, 2005	Three-month periods ended June 30, 2004	Six-month periods ended June 30, 2005	Six-month periods ended June 30, 2004
		(Restated - note 1(b))		(Restated - note 1(b))
Revenue:				
Resident	$ 46,188	$ 27,519	$ 87,627	$ 49,485
Mezzanine loan interest (notes 4 and 13(a) and (b))	1,964	1,014	3,755	1,887
Management fees (note 13(a), (b) and (c))	2,355	951	4,003	1,884
Other	360	106	460	427
	50,867	29,590	95,845	53,683
Expenses:				
Direct operating	31,790	19,479	61,284	34,641
General and administrative	2,451	1,830	4,450	3,314
	34,241	21,309	65,734	37,955
	16,626	8,281	30,111	15,728
Interest expense (note 13(c))	5,781	3,045	11,465	5,694
	10,845	5,236	18,646	10,034
Depreciation of properties	4,620	2,594	8,909	4,753
Amortization of management contracts, resident contracts and customer relationships	6,383	4,987	12,863	8,492
Write-down in carrying value of assets	–	501	817	501
	11,003	8,082	22,589	13,746
Loss before the undernoted	(158)	(2,846)	(3,943)	(3,712)
Gain on sale of assets	103	–	103	–
Non-controlling interest	(11)	266	437	340
Loss for the period	$ (66)	$ (2,580)	$ (3,403)	$ (3,372)
Loss per unit - basic and diluted (note 12)	$ (0.002)	$ (0.102)	$ (0.097)	$ (0.133)

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING
REAL ESTATE INVESTMENT TRUST

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

Six-month periods ended June 30, 2005 and 2004
(Unaudited)

	Units issued, net	LTIP units under subscription	LTIP instalment loans receivable	Losses	Distributions	Total
	(note 11)					
Unitholders' equity, January 1, 2004, as previously stated	$ 248,595	$ 8,753	$ (8,291)	$ (1,607)	$ (3,726)	$ 243,724
Restatement (note 1(b))	(21,500)	–	–	103	286	(21,111)
Unitholders' equity, January 1, 2004, as restated	227,095	8,753	(8,291)	(1,504)	(3,440)	222,613
Loss for the period from January 1, 2004 to June 30, 2004	–	–	–	(3,372)	–	(3,372)
Distributions to unitholders	–	–	–	–	(13,250)	(13,250)
Issuance of Trust Units under the Distributions Reinvestment Program	242	–	–	–	–	242
Trust Units issued under the Long-Term Incentive Program	–	363	(328)	–	–	35
Issue costs	(157)	–	–	–	–	(157)
Repayment of instalment loan receivable	–	–	412	–	–	412
Interest on instalment loan receivable	–	–	(156)	–	–	(156)
Distributions applied against instalment loan receivable	–	–	463	–	–	463
Unitholders' equity, June 30, 2004 (restated - note 1(b))	$ 227,180	$ 9,116	$ (7,900)	$ (4,876)	$ (16,690)	$ 206,830

	Units issued, net	LTIP units under subscription	LTIP instalment loans receivable	Losses	Distributions	Total
	(note 11)					
Unitholders' equity, January 1, 2005	$ 297,475	$ 9,176	$ (7,671)	$ (6,951)	$ (32,734)	$ 259,295
Loss for the period from January 1, 2005 to June 30, 2005	–	–	–	(3,403)	–	(3,403)
Distributions to unitholders	–	–	–	–	(19,328)	(19,328)
Issuance of Trust Units pursuant to public offering	90,313	–	–	–	–	90,313
Issuance of Trust Units under the Distributions Reinvestment Program	756	–	–	–	–	756
Trust Units issued on exchange of Class B Units of Master LP	583	–	–	–	–	583
Repayment of loan receivable under the Long-Term Incentive Program (note 11(c))	75	(75)	64	–	–	64
Issue costs	(5,113)	–	–	–	–	(5,113)
Interest on instalment loan receivable	–	–	(146)	–	–	(146)
Distributions applied against instalment loan receivable	–	–	448	–	–	448
Unitholders' equity, June 30, 2005	$ 384,089	$ 9,101	$ (7,305)	$ (10,354)	$ (52,062)	$ 323,469

See accompanying notes to consolidated financial statements.

CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

	Three-month periods ended June 30, 2005	Three-month periods ended June 30, 2004	Six-month periods ended June 30, 2005	Six-month periods ended June 30, 2004
		(Restated - note 1(b))		(Restated - note 1(b))
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (66)	$ (2,580)	$ (3,403)	$ (3,372)
Items not affecting cash:				
Depreciation and amortization	11,003	7,581	21,772	13,245
Write-down in carrying value of assets	–	501	817	501
Gain on sale of assets	(103)	–	(103)	–
Amortization of below-market resident contracts	(436)	(304)	(851)	(564)
Option benefit granted under the Long-Term Incentive Plan	–	18	–	18
Income from long-term investment	(28)	(9)	(51)	(19)
Distributions received on long-term investment	–	–	–	46
Non-controlling interest	11	(266)	(437)	(340)
	10,381	4,941	17,744	9,515
Amortization of deferred financing expenses	371	91	715	175
Amortization of debt discounts	55	40	103	64
Change in non-cash operating items	1,662	(1,600)	3,190	(3,289)
	12,469	3,472	21,752	6,465
Financing activities:				
Proceeds from mortgage financing	31,241	6,853	43,245	50,035
Proceeds from bank loan payable	3,266	15,000	8,399	15,000
Mortgage principal repayments	(11,264)	(1,576)	(21,055)	(5,336)
Repayments of loans payable	(3,924)	–	(38,201)	–
Deferred financing costs	(1,124)	(340)	(1,290)	(2,008)
Trust units issued pursuant to:				
Public offering	–	–	90,313	–
Issue costs	–	(54)	(5,113)	(157)
Distributions paid	(9,896)	(6,248)	(18,207)	(13,943)
Distributions paid to non-controlling interest unitholders	(1,414)	(753)	(2,576)	(1,475)
Repayment of instalment loan receivable	64	77	64	600
	6,949	12,959	55,579	42,716
Investing activities:				
Acquisition of assets, net of debt assumed and units issued (note 2)	(35,728)	(26,238)	(43,431)	(93,941)
Additions to properties	(8,348)	(1,161)	(10,295)	(1,801)
Proceeds on sale of property	518	–	518	–
Proceeds on sale of management contract	100	–	100	–
Mezzanine loans advances	(13,765)	(3,207)	(17,550)	(5,438)
Repayment of mezzanine loan receivable	458	–	458	–
Restricted cash	–	–	–	13,000
Capital funding receivable	65	19	85	31
	(56,700)	(30,587)	(70,115)	(88,149)
Increase (decrease) in cash and cash equivalents	(37,282)	(14,156)	7,216	(38,968)
Cash and cash equivalents, beginning of period	44,793	15,496	295	40,308
Cash and cash equivalents, end of period	$ 7,511	$ 1,340	$ 7,511	$ 1,340
Supplemental cash flow information:				
Interest paid	$ 5,183	$ 2,929	$ 11,307	$ 5,562

Supplemental cash flow information (note 17)

See accompanying notes to consolidated financial statements.

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

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are consistent with those policies and methods of application as disclosed in the audited consolidated financial statements prepared as at and for the year ended December 31, 2004.

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

(b) Change in accounting policy:

In response to the Emerging Issues Committee pronouncement 151 ("EIC-151"), Exchangeable Securities Issued by Subsidiaries of Income Trusts, which was issued on January 19, 2005, Chartwell REIT has adopted a new accounting policy applicable to the Class B Units of Master Care LP, a subsidiary of Chartwell REIT ("Master LP"). Under EIC-151, equity applicable to the Class B Units of Master LP is considered to be a non-controlling interest. Previously, Chartwell REIT included the Class B Units of Master LP as part of its unitholders' equity.

Chartwell REIT adopted this change in accounting policy retroactively with the restatement of prior periods' consolidated financial statements (note 10). As a result, the net loss was increased by $11 (nil per unit) and reduced by $437 ($0.012 per unit) for the three-month and six-month periods ended June 30, 2005, respectively, and reduced by $266 ($0.011 per unit) and $340 ($0.013 per unit) for the three-month and six-month period ended June 30, 2004, respectively. Unitholders' equity was reduced by $52,753 and $40,279 at June 30, 2005 and December 31, 2004, respectively.

1. Significant accounting policies:

(c) Impact of new accounting pronouncements:

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

At June 30, 2005, Chartwell REIT holds variable interests in six variable interest entities. Chartwell REIT provides development services, mezzanine loans, structuring services and consulting services to these entities. These six variable interest entities are expected to incur development costs of approximately $146,472.

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

As of June 30, 2005, Chartwell REIT had mezzanine loans receivable of $17,869 and accounts receivable of $559 due from these entities, and deferred revenue of $2,106 collected from these entities.

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

2. Acquisitions:

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

	Three-month periods ended June 30, 2005	Three-month periods ended June 30, 2004	Six-month periods ended June 30, 2005	Six-month periods ended June 30, 2004
	(Unaudited)		(Unaudited)	
Assets				
Properties	$ 48,450	$ 72,271	$ 75,178	$ 140,784
Land held for development	525	–	525	–
Licenses	1,600	–	1,600	8,130
Resident contracts	4,873	6,144	8,821	12,716
Capital funding receivable	6,625	–	6,625	2,824
Other assets	200	–	200	–
	62,273	78,415	92,949	164,454
Liabilities				
Mortgages payable	17,233	50,328	22,237	57,792
Below-market resident contracts	–	339	–	1,134
Working capital	–	510	–	1,310
	17,233	51,177	22,237	60,236
Net assets acquired	$ 45,040	$ 27,238	$ 70,712	$ 104,218
Settled by:				
Issuance of Class B Units of Chartwell Master LP	$ 2,295	$ 1,000	$ 16,188	$ 8,919
Vendor take-back mortgage	–	–	–	1,358
Settlement of mezzanine loans receivable	7,017	–	11,093	–
Cash	35,728	26,238	43,431	93,941
	$ 45,040	$ 27,238	$ 70,712	$ 104,218

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

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

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

2. Acquisitions (continued):

Included in 2005 acquisitions are three facilities acquired from Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, for a purchase price of $26,078.

Included in acquisitions completed in the six-month period ended June 30, 2004 are four long-term care facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of $39,468. These properties were previously managed by Chartwell REIT (note 13(c)).

3. Properties:

			June 30, 2005			December 31, 2004
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
			(Unaudited)			
Land	$ 75,082	$ –	$ 75,082	$ 65,745	$ –	$ 65,745
Buildings	588,424	17,003	571,421	516,570	10,205	506,365
Furniture, fixtures and equipment	24,445	4,978	19,467	19,569	2,867	16,702
	$ 687,951	$ 21,981	$ 665,970	$ 601,884	$ 13,072	$ 588,812

During the three-month period ended March 31, 2005, Chartwell REIT recorded a write-down of the carrying value of a property in the amount of $817.

At June 30, 2005, building costs included $6,497 related to four building additions being developed at existing facilities.

4. Mezzanine loans receivable:

(a) Spectrum:

In accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT provides mezzanine loans to Spectrum. As at June 30, 2005, mezzanine loans receivable from Spectrum amounted to $35,448 (December 31, 2004 - $42,800). In accordance with the Development Agreement, the loans bear interest at a rate equal to the greater of the yield on five-year Canada bonds plus 5% and the annualized Chartwell REIT's cash distribution yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum and is payable monthly. The loans outstanding as at June 30, 2005 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 27 (December 31, 2004 - 27) seniors' housing development properties.

Under the terms of the Development Agreement, Chartwell REIT has the first right to purchase Spectrum's interest in each development property provided that Spectrum must offer Chartwell REIT the opportunity to purchase any development property within one year of such property reaching a stabilized occupancy. If Chartwell REIT elects to purchase a development property, Chartwell REIT will acquire the property at an amount equal to 95%, 92.5% or 90% of appraised fair market value, depending upon the amount of mezzanine financing provided on the development property or at 100% of the appraised fair market value if no mezzanine financing had been advanced.

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

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

4. Mezzanine loans receivable (continued):

(b) Other:

In addition, Chartwell REIT has advanced twelve mezzanine loans totalling $22,572 (December 31, 2004 - $9,221) to three of Spectrum's joint venture partners (the "Borrowers"). One of the Borrowers, with an outstanding loan balance of $19,504 at June 30, 2005 (December 31, 2004 - $6,820), is a significant joint venture partner of Chartwell REIT on other unrelated properties. These loans bear interest at rates of 10% to 14% per annum payable monthly and are secured by second charges or pledges of Borrowers' interests over 10 development projects.

Each mezzanine loan matures on the earliest of: the fifth anniversary of the initial advance of the funds; the date of sale of the related development property; or on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development Agreement with Spectrum and loan agreements with the Borrowers. No principal is due prior to maturity of each loan.

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

In addition, the Borrowers of 10 of these mezzanine loans can obligate Chartwell REIT to acquire their interests in the projects at appraised value, subject to certain conditions being satisfied.

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

5. Management contracts, resident contracts and customer relationships:

			June 30, 2005			December 31, 2004
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
			(Unaudited)			
Management contracts	$ 4,142	$ 1,398	$ 2,744	$ 4,721	$ 1,186	$ 3,535
Resident contracts	73,068	28,347	44,721	68,418	20,394	48,024
Customers relationships	4,279	1,387	2,892	4,507	1,011	3,496
	$ 81,489	$ 31,132	$ 50,357	$ 77,646	$ 22,591	$ 55,055

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

During the three and six-month periods ended June 30, 2005, $252 and $162 of management contracts and customer relationships were transferred to goodwill following the acquisition of the related seniors housing facility by Chartwell REIT.

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

At June 30, 2005, cost and accumulated amortization of resident contracts were reduced by $4,027 for fully amortized resident contracts.

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

6. Other assets:

	June 30, 2005	December 31, 2004
	(Unaudited)	
Accounts receivable	$ 4,083	$ 4,925
Deferred financing costs, net of accumulated amortization of $2,746 (December 31, 2004 - $2,031)	6,408	5,833
Capital funding receivable	9,294	2,754
Deposits on acquisitions	300	–
Long-term investment	1,574	1,523
Due from Spectrum (note 13(a))	1,515	3,127
Land held for development	2,125	1,600
Prepaid expenses	5,402	2,537
Other (note 13(a))	4,391	3,340
	$ 35,092	$ 25,639

Included in other income is $28 and $51 earned from Chartwell REIT's long-term investment for the three-month and six-month periods ended June 30, 2005, respectively (three-month and six-month periods ended June 30, 2004 - $9 and $19, respectively).

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

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

7. Mortgages payable:

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

	Regular principal payments	Principal due on maturity	Total
			(Unaudited)
2005	$ 6,328	$ 30,303	$ 36,631
2006	11,246	31,984	43,230
2007	10,718	27,600	38,318
2008	10,734	34,785	45,519
2009	6,606	102,974	109,580
Thereafter	28,527	117,245	145,772
	$ 74,159	$ 344,891	$ 419,050

	June 30, 2005	December 31, 2004
	(Unaudited)	
Mortgages at fixed rates	$403,536	$366,123
Interest rates	3.28% - 8.95%	3.28% - 8.95%
Weighted average rate	5.09%	5.23%
Mortgages at variable rates	$15,514	$8,397
Interest rates	Prime - prime plus 3%	Prime - prime plus 1%
Weighted average rate	4.87%	4.51%

Interest on mortgages payable amounted to $5,935 and $10,769 for the three-month and six-month periods ended June 30, 2005, respectively (2004 - $2,954 and $5,519, respectively), excluding the amortization of deferred financing costs.

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

8. Loans payable:

	June 30, 2005 (Unaudited)	December 31, 2004
Secured revolving operating facility	$ 3,266	$ 28,418
Secured bridge loans	8,450	13,100
	$ 11,716	$ 41,518

At June 30, 2005, Chartwell REIT has arranged for a secured revolving operating facility in the amount of $55,000.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by first and second charges on specific facilities. The credit facility is due on March 14, 2006.

The secured bridge loans bear interest at prime plus 1%, are secured by second charges over three seniors' housing facilities and are repayable on demand.

9. Accounts payable and other liabilities:

	June 30, 2005 (Unaudited)	December 31, 2004
Accounts payable and accrued liabilities	$ 18,382	$ 14,977
Below-market resident contracts, net of accumulated amortization of $2,334 (December 31, 2004 - $1,483)	2,641	3,492
Resident deposits	1,328	1,013
Deferred consideration on acquisition of property	2,000	2,000
Deferred revenue	2,106	–
	$ 26,457	$ 21,482

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

9. Accounts payable and other liabilities (continued):

Deferred consideration on acquisition of property relates to the acquisition of one property completed during 2004 and is due on the earlier of the property achieving certain operating results and September 14, 2006.

Deferred revenue relates to fees collected on certain development projects which will be recorded as revenue over the estimated terms of Chartwell REIT's involvement in these projects.

10. Non-controlling interest:

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

The details of non-controlling interest are as follows:

Opening balance, January 1, 2005	$ 40,279
Issuance of Class B Units of Master LP (note 2)	16,188
Non-controlling interest's share of loss for the period	(437)
Distributions on Class B Units of Master LP	(2,694)
Exchange of Class B Units of Master LP for Trust Units	(583)
Closing balance, June 30, 2005 (unaudited)	$ 52,753

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

11. Unitholders' capital:

Chartwell REIT is authorized to issue unlimited Trust Units.

(a) The following units are issued and outstanding:

	Number of voting units	Amount
Balance, January 1, 2004 (restated - note 1(b))	25,325,500	$ 227,095
Units issued pursuant to the Distribution Reinvestment Plan	21,470	242
Issue costs	–	(157)
Balance, June 30, 2004	25,346,970	227,180
August 6, 2004:		
Units issued pursuant to secondary public offering	6,250,000	70,313
September 14, 2004:		
Issuance of Trust Units on acquisition of properties	235,820	2,758
Units issued pursuant to the Distribution Reinvestment Program	80,215	937
Issue costs	–	(3,713)
Balance, December 31, 2004	31,913,005	297,475
March 30, 2005:		
Units issued pursuant to secondary public offering	6,250,000	90,313
Units issued pursuant to the Distribution Reinvestment Program	54,091	756
Units issued in exchange for Class B Units of Master LP	48,943	583
Units issued on disposition of Long-Term Incentive Program Units under subscription	7,500	75
Issue costs	–	(5,113)
Units outstanding, June 30, 2005	38,273,539	$ 384,089

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

11. Unitholders' capital (continued):

(b) Distribution Reinvestment Program ("DRIP"):

Chartwell REIT has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

(c) Long-Term Incentive Plan ("LTIP"):

During the three-month period ended June 30, 2005, holders of 7,500 LTIP Units under subscription repaid their loans under the LTIP with an outstanding balance of $64. As a result, the underlying Trust Units have been transferred from LTIP Units under subscription to Trust Units issued.

12. Loss per unit calculation:

	Three-month periods ended June 30, 2005		Three-month periods ended June 30, 2004 (Restated - note 1(b))		Six-month periods ended June 30, 2005		Six-month periods ended June 30, 2004 (Restated - note 1(b))	
	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount	Weighted average units	Amount
	(Unaudited)				(Unaudited)			
Loss for the period	38,230,338	$ (66)	25,334,837	$ (2,580)	35,129,983	$ (3,403)	25,330,169	$ (3,372)
LTIP units under subscription	857,692	–	832,253	–	858,840	–	828,626	–
	39,088,030	$ (66)	26,167,090	$ (2,580)	35,988,823	$ (3,403)	26,158,795	$ (3,372)
Loss per unit - basic and diluted		$ (0.002)		$ (0.102)		$ (0.097)		$ (0.133)

13. Related party transactions:

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

(a) During the three-month and six-month periods ended June 30, 2005, Chartwell REIT earned mezzanine loan interest of $1,345 and $2,814, respectively (three-month and six-month periods ended June 30, 2004 - $1,014 and $1,887, respectively) from Spectrum. Under the terms of the Development Agreement (note 4), Chartwell REIT also provides operations management and development management services to Spectrum. During the three-month and six-month periods ended June 30, 2005, Chartwell REIT earned management fees of $1,102 and $1,990, respectively (three-month and six-month periods ended June 30, 2004 - $444 and $621, respectively) in respect of these services.

In addition, Chartwell REIT earned $200 and $321 (three-month and six-month periods ended June 30, 2004 - nil) in financing fees from Spectrum during the three-month and six-month periods ended June 30, 2005, respectively.

Other assets as of June 30, 2005 include $1,515 (December 31, 2004 - $3,127) due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to June 30, 2005, $1,107 of this balance was repaid. In addition, other assets include advances of $50 (December 31, 2004 - $125) due from a joint venture where Spectrum holds a 72.5% interest.

Included in distributions payable at June 30, 2005 is $193 (December 31, 2004 - $170) due to Spectrum.

(b) During the three-month and six-month periods ended June 30, 2005, Chartwell REIT earned fees of $561 and $714 (2004 - nil), respectively and interest of $546 and $802 (2004 - nil), respectively, from the entities controlled by one of its significant joint venture partners.

No such fees were earned in the corresponding periods of 2004.

At June 30, 2005, accounts receivable include $559 (December 31, 2004 - $1,474) due from these entities and deferred revenue includes $2,106 (December 31, 2004 - nil) collected from these entities.

13. Related party transactions (continued):

(c) During the three months ended March 31, 2004, in accordance with an Escrow Agreement, Chartwell REIT earned management fees in the amount of $298 and incurred interest expense in the amount of $40 from an entity controlled by an officer of Chartwell REIT.

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

14. Segmented information:

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

Effective June 30, 2005, Chartwell REIT changed the composition of its reportable segments to classify seniors' housing facilities containing both retirement and long-term care beds as retirement homes or long-term care facilities based on the primary level of care provided. Previously revenue, expenses, assets and liabilities of these facilities were allocated to both operating segments based on the number of retirement and long-term care beds. The financial information for the comparative periods has been restated to conform with the current classification. As a result, net loss of the retirement operations segment was increased by $259 and $291 for the three-month and six-month periods ended June 30, 2004 and net loss of long-term care operations segment was decreased by the same amounts. Assets of retirement operations segment as at December 31, 2004 were reduced by $1,885 with the corresponding increase in long-term care operations segments assets. Retirement operations liabilities were reduced by $708 and long-term care segment liabilities were increased by $708 as at December 31, 2004.

Effective December 31, 2004, Chartwell REIT corrected the reporting of its goodwill allocations to reporting units to reflect the impact of acquiring properties managed under contracts included in the management operations segment. As a result, $1,556 and $1,825 of goodwill previously allocated to the management operations segment has been reallocated to the retirement operations and long-term care operating segments, respectively.

14. Segmented information (continued):

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

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

14. Segmented information (continued):

Assets not allocated to operating segments consist primarily of mezzanine loans and cash, liabilities not allocated to operating segments consist of distributions payable.

	Three-month period ended June 30, 2005			
	Retirement operations	Long-term care operations	Management operations	Total
		(Unaudited)		
Revenue	$ 33,903	$ 12,285	$ 2,355	$ 48,543
Direct operating expenses	(20,098)	(10,621)	(1,071)	(31,790)
Income before the undernoted	13,805	1,664	1,284	16,753
Interest expense	(5,047)	(734)	–	(5,781)
Income before depreciation and amortization and write-down	8,758	930	1,284	10,972
Depreciation and amortization	(9,947)	(625)	(431)	(11,003)
Gain on sale of assets	103	–	–	103
	$ (1,086)	$ 305	$ 853	72
Items not allocated to operating segments:				
Mezzanine loan interest and other income				2,324
General and administrative expenses				(2,451)
Non-controlling interest				(11)
				(138)
Loss for the period				$ (66)
Expenditures for assets by segment:				
Acquisitions - properties, licences and resident contracts	$ 41,919	$ 13,004	$ –	$ 54,923
Capital improvements	6,330	2,018	–	8,348

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

14. Segmented information (continued):

	Three-month period ended June 30, 2004 (Restated - note 1(b))			
	Retirement operations	Long-term care operations	Management operations	Total
		(Unaudited)		
Revenue	$ 17,227	$ 10,292	$ 951	$ 28,470
Direct operating expenses	(10,278)	(8,911)	(290)	(19,479)
Income before the undernoted	6,949	1,381	661	8,991
Interest expense	(2,614)	(431)	–	(3,045)
Income before depreciation and amortization and write-down	4,335	950	661	5,946
Depreciation and amortization	(5,411)	(1,671)	(499)	(7,581)
Write-down in carrying values of assets	–	–	(501)	(501)
	$ (1,076)	$ (721)	$ (339)	(2,136)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				1,120
General, administrative and trust expenses				(1,830)
Non-controlling interest				266
				(444)
Loss for the period				$ (2,580)
Expenditures for assets by segment:				
Acquisitions - properties licenses and resident contracts	$ 78,415	$ –	$ –	$ 78,415
Additions to properties	936	225	–	1,161

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

14. Segmented information (continued):

	Six-month period ended June 30, 2005			
	Retirement operations	Long-term care operations	Management operations	Total
	(Unaudited)			
Revenue	$ 65,110	$ 22,517	$ 4,003	$ 91,630
Direct operating expenses	(39,385)	(19,765)	(2,134)	(61,284)
Income before the undernoted	25,725	2,752	1,869	30,346
Interest expense	(10,177)	(1,288)	–	(11,465)
Income before depreciation and amortization and write-down	15,548	1,464	1,869	18,881
Depreciation and amortization	(19,239)	(1,652)	(881)	(21,772)
Write-down in carrying values of assets	(817)	–	–	(817)
Gain on sale of assets	103	–	–	103
	$ (4,405)	$ (188)	$ 988	(3,605)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				4,215
General and administrative expenses				(4,450)
Non-controlling interest				437
				202
Loss for the period				$ (3,403)
Expenditures for assets by segment:				
Acquisitions - properties, licences and resident contracts	$ 72,595	$ 13,004	$ –	$ 85,599
Capital improvements	8,051	2,244	–	10,295

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

14. Segmented information (continued):

	Six-month period ended June 30, 2004 (Restated - note 1(b))			
	Retirement operations	Long-term care operations	Management operations	Total
	(Unaudited)			
Revenue	$ 33,336	$ 16,149	$ 1,884	$ 51,369
Direct operating expenses	(20,184)	(13,884)	(573)	(34,641)
Income before the undernoted	13,152	2,265	1,311	16,728
Interest expense	(4,975)	(719)	–	(5,694)
Income before depreciation and amortization and write-down	8,177	1,546	1,311	11,034
Depreciation and amortization	(10,337)	(1,850)	(1,058)	(13,245)
Write-down in carrying values of assets	–	–	(501)	(501)
	$ (2,160)	$ (304)	$ (248)	(2,712)
Items not allocated to operating segments:				
Mezzanine loan interest and other income				2,314
General and administrative expenses				(3,314)
Non-controlling interest				340
				(660)
Loss for the period				$ (3,372)
Expenditures for assets by segment:				
Properties	$ 93,483	$ 68,147	$ –	$ 161,630
Capital improvements	1,576	225	–	1,801

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

14. Segmented information (continued):

	June 30, 2005				
	Retirement operations	Long-term care operations	Management operations	Other	Total
	(Unaudited)				
Total assets	$ 668,422	$ 88,609	$ 14,832	$ 65,531	$ 837,394
Total liabilities	398,495	56,622	2,106	3,949	461,172

	December 31, 2004				
	Retirement operations	Long-term care operations	Management operations	Other	Total
Total assets	$ 602,751	$ 66,507	$ 16,832	$ 54,162	$ 740,252
Total liabilities	394,336	43,184	–	3,158	440,678

15. Joint venture operations:

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

	June 30, 2005	December 31, 2004
	(Unaudited)	
Assets	$ 66,177	$ 55,838
Liabilities	45,169	38,715

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

15. Joint ventures' operations (continued):

	Three-month periods ended June 30, 2005	2004	Six-month periods ended June 30, 2005	2004
	(Unaudited)		(Unaudited)	
Revenue	$ 2,546	$ –	$ 5,192	$ –
Expenses	3,059	–	6,127	–
Depreciation and amortization included in expenses above	731	–	1,466	–
Cash provided by (used in):				
Operating	618	–	819	–
Financing	3,848	–	4,055	–
Investing	(365)	–	(490)	–

At June 30, 2005, Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to $45,169. The total assets of these joint ventures are available to satisfy these liabilities.

16. Commitments and contingencies:

Other than disclosed elsewhere in these financial statements, commitments and contingencies include the following:

(a) Operating leases:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of $126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases vary from $254 to $477 over the term of the lease.

(b) Purchase obligations:

As of June 30, 2005, Chartwell REIT committed to acquire all outstanding common shares of CPAC (Care) Holdings Inc. for a purchase price of $1.55 per share. Subsequent to June 30, 2005, Chartwell REIT completed this acquisition (note 20).

16. Commitments and contingencies (continued):

Chartwell REIT has entered into various construction contracts related to various internal growth projects. As of June 30, 2005, the remaining commitments under these contracts amounted to approximately $15,500.

(c) Contingent consideration on acquisitions:

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

(ii) The purchase and sale agreement related to one property acquired commits Chartwell REIT to the payment of up to $5,000 in respect of certain suites that are being added to the property. The ultimate amount paid will be recorded in the consolidated financial statements with a corresponding adjustment to the purchase price of the property when the suites are complete and/or the property achieves stabilization.

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

(d) Mezzanine loans receivable:

As at June 30, 2005, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of $15,217 (note 4).

(e) Letters of credit:

As of June 30, 2005, Chartwell REIT was contingently liable for letters of credit in the amount of $235.

16. Commitments and contingencies (continued):

(f) Litigations and claims:

In the normal course of operations, Chartwell REIT becomes a defendant in actions brought against it from time to time. It is not possible to predict the ultimate outcome of the various proceedings at this time or estimate additional costs that may result.

17. Supplemental cash flow information:

At June 30, 2005, distributions of $3,949, including $478 applicable to non-controlling interest (December 31, 2004 - $3,158, including $360 applicable to non-controlling interest) remained payable to unitholders. This amount has been excluded from financing and operating activities in the consolidated statements of cash flows.

The acquisition of net assets in the three and six-month periods ended June 30, 2005 (note 2) were partially financed through the issuance of $2,295 and $16,188 of Class B Units of Master LP, respectively, and the settlement of mezzanine loans receivable of $7,017 and $11,093, respectively. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

During the three-month and six-month periods ended June 30, 2005, distributions of $228 and $448, respectively (three-month and six-month periods ended June 30, 2004 - $212 and $463, respectively), and interest of $58 and $146, respectively (three-month and six-month periods ended June 30, 2004 - $76 and $156, respectively), were applied against instalment loans receivable related to the LTIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.

During the three-month and six-month periods ended June 30, 2005, Trust Units valued at $392 and $756, respectively (three-month and six-month periods ended June 30, 2004 - $242) were issued pursuant to the DRIP. These amounts have been excluded from financing activities on the consolidated statements of cash flows.

18. Financial instruments and financial risk management:

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

(a) Interest rate risk:

Interest rate risk arises with changes in interest costs, which affect Chartwell REIT's floating rate debt on an ongoing basis and its fixed-rate debt upon renewal. At June 30, 2005, $27,230 (December 31, 2004 - $49,915) of Chartwell REIT's mortgages and loans payable bear interest at floating rates. To mitigate interest rate risk, Chartwell REIT fixes or otherwise limits the interest rate on its long-term debt to the extent possible either on renewal or through the purchase of derivative instruments. Generally, Chartwell REIT fixes the term of long-term debt within a range from 5 to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on all of its mortgages payable, Chartwell REIT entered into an interest rate swap contract with a notional principal amount of $13,836 that entitles Chartwell REIT to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.95%. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap contract based on cash settlement requirements as of June 30, 2005 is a negative value of $1,531.

(b) Credit and collection risk:

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

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

(c) Fair values:

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

The fair values of mortgages payable as at June 30, 2005 were $430,505 as compared to their carrying values of $419,050.

As of June 30, 2005, the fair value of capital funding receivable approximates its carrying value.

19. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2005.

20. Subsequent events:

Subsequent to June 30, 2005, Chartwell REIT completed the acquisition of all outstanding shares of CPAC (Care) Holdings Inc. for an aggregate purchase price of $48,385.

Subsequent to June 30, 2005, Chartwell REIT advanced $4,296 of mezzanine loans to Spectrum and other parties. These loans bear interest at 10%.

On August 4, 2005, Chartwell REIT agreed to issue 10,200,000 Trust Units at $15.20 per unit and filed a prospectus with securities regulators.

Subsequent to June 30, 2005, Chartwell REIT agreed to acquire a 50% interest in six seniors housing facilities in the United States for a purchase price of $143,910.