Management's Discussion and Analysis

For the year ended December 31, 2004

(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 year ended December 31, 2004. This discussion and analysis should be read in conjunction with the REIT's audited consolidated financial statements for the year ended December 31, 2004, the notes thereto and the financial forecast ("Forecast") included in REIT's initial public offering prospectus ("Prospectus") dated October 31, 2003. Additional information about the REIT, including the Annual Information Form can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of February 11, 2005.

FORWARD LOOKING DISCLAIMER

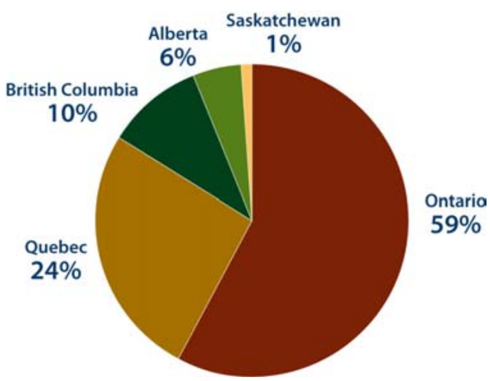
This discussion may contain forward-looking statements that reflect the current expectations of the management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. Chartwell has tried to identify these forward-looking statements 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

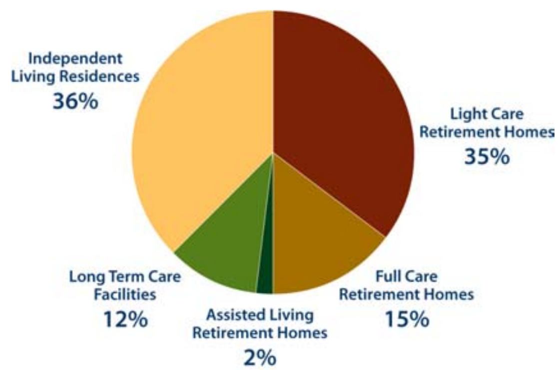
The REIT commenced operations on November 14, 2003 following completion of its Initial Public Offering ("IPO"). The REIT did not hold any material assets prior to November 14, 2003 and is considered to have begun operations on that date.

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of seniors housing facilities across the complete spectrum of care from independent living facilities ("IL Facilities"), through retirement homes ("Retirement Homes") to long-term care facilities ("LTC Facilities"), all of which are located in Canada. 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 December 31, 2004 Chartwell's portfolio of seniors housing facilities owned or managed on behalf of others consisted of interests in approximately 13,500 suites in 128 facilities which are operating, under construction or in various stages of development, located in the Provinces of Ontario, Alberta, Saskatchewan, British Columbia and Quebec. In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of seniors housing facilities. Chartwell is committed to the delivery of quality care and services to seniors and operates a variety of programs to meet the needs of clients and the demands of each local marketplace. Chartwell employs approximately 3,600 people in its owned properties.

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.

SIGNIFICANT EVENTS IN 2004

Acquisitions

During the year ended December 31, 2004, Chartwell REIT acquired interests in 32 facilities (4,081 suites) for a total purchase price of $367.9 million. These were settled by the assumption of mortgages payable and other liabilities of $164.6 million, issuance of Trust Units of $3.0 million, issuance of $23.0 million of Class B Units of Chartwell Master Care LP ("Master LP"), a subsidiary of the REIT, vendor-take-back mortgage and deferred purchase consideration of $9.0 million and cash.

The following table summarizes the acquisitions completed in the year:

#	Property	Location	Type	Effective date of acquisition	Beds/Suites
1	Aurora Resthaven(2)(3)	Aurora, ON	Long term care	February 11, 2004	240
2	Ballycliffe Lodge(2)	Ajax, ON	Long term care	February 11, 2004	100
			Retirement		42
3	Bon-Air(2)(3)	Cannington, ON	Long term care	February 11, 2004	55
			Retirement		9
4	The Gibson(2)	Toronto, ON	Long term care	February 11, 2004	202
5	Gibson Retirement Residence(2)	Toronto, ON	Retirement	February 11, 2004	73
6	Pine Grove Lodge(2)(3)	Woodbridge, ON	Long term care	February 11, 2004	100
			Retirement		40
7	Residence Champlain(2)	L'Original, ON	Long term care	February 11, 2004	60
8	White Eagle(2)(3)	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

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

(2) These properties were contemplated to be acquired at the time of the IPO, however, due to regulatory delays, these acquisitions did not close until February 2004.

(3) At December 31, 2004 these 4 facilities (500 suites) were operated in escrow by the vendors for the account of Chartwell.

Secondary Public Offering

The REIT completed an offering of trust units on August 6, 2004 and issued 6.25 million of trust units at $11.25 per Unit. The gross proceeds amounted to $70.3 million before issue costs of $3.9 million. The net proceeds were used to repay the amounts outstanding under the REIT's credit facilities, and to finance acquisitions and mezzanine loans.

Mezzanine Loans

During 2004, the REIT advanced mezzanine loans totaling $27.1 million to Spectrum and others for the development of 22 seniors housing facilities. The loans bear interest at rates ranging between 10% and 14% and are secured by second fixed charges and/or pledges of borrowers' interests in the projects.

New Financing Arrangements

During the year, the REIT arranged new mortgage financing (or refinanced assumed mortgages) for 15 of its newly acquired facilities in the aggregate amount of $97.6 million. This debt bears interest at a weighted average rate of 5.0% and matures on various dates up to February 2014.

The REIT has also negotiated a new secured revolving operating facility of $50 million. As at December 31, 2004, the REIT was authorized to borrow up to $30 million under this facility. The remaining $20 million of this facility has been approved by the lenders subject to the completion of legal documentation and due diligence.

The REIT also arranged for two secured bridge facilities totaling $13.1 million, which have been fully utilized as at December 31, 2004. These facilities will be repaid in the first quarter of 2005 from the proceeds of the refinancing of the properties securing these facilities.

2005 OUTLOOK

Management continues to seek out and evaluate a number of acquisition, development and mezzanine financing opportunities that it believes will significantly add to revenues and distributable income in 2005 and beyond. The Canadian seniors housing industry is highly fragmented with the ten largest participants in the business accounting for only 23% of Canadian seniors housing suites. As the country's second largest industry participant, Chartwell believes it has the resources and the experience to structure and offer smaller operators an exit strategy that meet their needs. Chartwell also has the right to acquire interests in over 3,000 suites in lease up or under development by Spectrum. Chartwell has the option to acquire these suites at a discount to appraised value. Management anticipates that the REIT will acquire between 4 and 6 properties from Spectrum in 2005.

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

In addition, as a component of its internal growth program, management intends to add new suites to existing facilities through property expansions. As of December 31, 2004 the REIT is engaged in the following projects:

- Repositioning of the Gibson Long Term Care Centre to create additional preferred accommodation. The expected completion date is the third quarter of 2005. Management estimates the REIT will invest approximately $2.6 million in the project.

- Addition of 18 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 will obtain financing for 80% of the estimated cost.

- Repositioning of Devonshire Seniors Residence. The expected completion date is the second quarter of 2005. Management estimates that the total project cost will amount to $2.5 million and will be partially financed by a construction loan.

- 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.

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

<u>FINANCIAL STATEMENTS AND ACCOUNTING POLICIES</u>

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

During 2004, the REIT adopted the following new accounting policies.

- With the completion of the acquisition of long-term care facilities, a portion of the purchase price paid for such facilities is now allocated to licenses. Licenses are not amortized, but tested for impairment annually.

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

- Revenue from development management is recorded on a project specific basis using the percentage of completion method based upon the level of effort expended to achieve pre-determined project milestones. No development management revenue is recognized prior to obtaining required permits or the commencement of construction activities.

- On January 19, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued EIC-151, Exchangeable Securities issued by Subsidiaries of Income Trusts. Under the provisions of EIC-151, Class B Units of Master LP are considered to be a non-controlling interest. Previously Chartwell REIT included Class B Units of Master LP as part of its Unitholders Equity. The recommendations of EIC-151 are required to be adopted immediately and retroactively applied. Consequently, Chartwell REIT restated its results for the period ended December 31, 2003 in order to comply with EIC-151.

  The Emerging Issues Committee of CICA has been presented with a number of issues regarding the implementation of the EIC-151. The resolution of these issues has not yet been completed. Upon release of further guidance, the REIT may be required to change it's application of EIC-151.

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 and any exchangeable security distribution amount; plus up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for Long-Term Care facilities, and amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP) is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income as computed by the REIT may differ from similar computations as reported by other organizations and, accordingly, may not be comparable to distributable income as reported by such organizations.

Effective January 1, 2004 the Board of Trustees approved a revision to the definition of Distributable Income to include up to 100% of the principal portion of capital subsidy receivable from Ontario Ministry of Health and Long-Term Care for long-term care facilities and amounts received as contingent consideration for Operating Subsidies that are not included in Net Income under GAAP. Distributable income run-rate is calculated by annualizing quarterly distributable income.

The tables presented under the <u>Results of Operations</u> 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 in accordance with the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC").

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.

SIGNIFICANT ACCOUNTING ESTIMATES

Goodwill

Significant accounting policies that require management's judgements and estimates include the valuation of assets and liabilities including goodwill and other intangibles.

Under GAAP, goodwill is not amortized but instead assessed for impairment on an annual basis by comparing the carrying value of a reporting unit with its fair market value. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and an impairment charge to income will be recognized. The fair value of goodwill is determined using valuation models that consider various factors such as normalized and projected earnings, price earnings multiples and discount rates. The REIT's management uses its best judgement in estimating fair values in this process. Imprecision in estimates can affect the valuation of goodwill.

Purchase Price Allocation

On September 12, 2003 the CICA issued the Emerging Issues Committee Abstract (EIC-140), "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination". Under this guidance a portion of the purchase price of acquired properties should be allocated to in-place leases, above or below market leases and customer relationships.

The value attributable to resident contracts represents the avoided cost of originating the acquired resident contracts, plus the value of lost net resident revenue over the estimated lease-up period of the property.

The value allocated to below market leases represents the net present value of the difference between the contracted amounts to be paid pursuant to the in-place lease and management estimate of the fair market lease rate for the corresponding in-place lease measured over a period of the average tenant stay in the facility.

In order to effect such purchase price allocation, management is required to make estimates of the average building lease-up period, average resident stay at the facility and the average lease-up costs. These estimates were based on historical, financial and market information.

Imprecision in these estimates can affect the allocation of purchase price paid on acquisition of seniors housing facilities between intangible assets and real estate properties and the related depreciation and amortization.

Variable Interest Entities

CICA Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15") applies to annual and interim periods beginning on or after November 1, 2004. AcG-15 addresses the potential consolidation by enterprises of variable interest entities ("VIEs") under certain prescribed circumstances.

The REIT is continuing its evaluation of the impact of AcG-15 on the accounting for its relationships with and interests in various entities. It has determined that Spectrum is the most significant entity that could be subject to consolidation under AcG-15. The REIT has performed an analysis of its relationships with Spectrum as required by AcG-15 and currently believes that Spectrum will not be subject to consolidation under AcG-15. The REIT continues to evaluate the applicability of AcG-15 in this regard, as well as its impact on the consolidated financial statements and its current and future arrangements including joint ventures, mezzanine financings and other relationships.

In order to complete and finalize its evaluation under AcG-15, management is required, among other things, to make estimates of expected losses and/or residual returns, the probabilities of any such losses and/or residual returns relating to Spectrum, joint ventures, mezzanine financings and other relationships, and the impact of changing economic conditions. These estimates are based on historical and available market information. Imprecision in these estimates can affect the assessment of expected losses and/or residual returns.

In conjunction with the above analysis, in late 2004 the REIT and Spectrum negotiated and made certain amendments to the Development Agreement, including the provision of a termination right to both parties on six months' notice. Following any termination, however, Chartwell Master Care LP will continue to have certain contractual rights pursuant to mezzanine loans made, or committed to be made, to Spectrum prior to such termination.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. The REIT's long-lived assets consist of investments in properties and mezzanine loans receivable.

The fair value of investments in properties is dependent upon anticipated future cash flows from operations over the anticipated holding period. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved. In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected from the direct use and eventual disposition of the property, an impairment would be recognized.

The fair value of mezzanine loans receivable depends upon the financial stability of the borrower and the economic value of the underlying security.

There were no impairments of properties or mezzanine loans receivable for the year ending December 31, 2004 and the period ending December 31, 2003.

Fair Value of Mortgages Payable

Management determines and discloses the fair value of REIT's mortgages payable on a quarterly basis. In determining the fair value, management uses internally developed models that are based upon current market conditions. The process involves discounting the future contractual mortgage payments based upon a current market rate. In determining market rates, management adds a credit spread to the quoted yields on Canadian government bonds with similar maturity dates to the REIT's mortgages. The credit spread is estimated based upon experience in obtaining similar financing and is also affected by current market conditions.

Revenue from Development Management Activities

Revenue from development management activities are recorded on a project specific basis using the percentage-of-completion method based upon the level of effort expended to achieve predetermined milestones. In order to determine the effort expanded on particular projects, management made estimates of the time it spent on typical development activities performed during the course of the development cycle. Management engaged the services of an independent cost consultant who supported the assumptions being made. Imprecision in these estimates can affect the timing of development management fee recognition.

RESULTS OF OPERATIONS

The selected information presented below is based on the audited consolidated financial statements of the REIT for the year ended December 31, 2004. The financial information for the three months ended December 31, 2004 is based on the REIT's internal accounting records.

As the entity was not in existence prior to November 14, 2003, the comparison of the financial results of the year ended December 31, 2004 with the financial results for the period ended December 31, 2003 would not be meaningful.

The following table compares the results of the REIT for the twelve and three months ended December 31, 2004 with the financial Forecast presented in the REIT's Prospectus.

In light of recent acquisitions and other previously disclosed developments, on July 14, 2004 management updated its outlook for the year ended December 31, 2004 with reference to the Forecast.

As a result of the factors outlined in the July 14, 2004 update, and based on the information available at that time, Chartwell estimated that total Distributable Income for the year ended December 31, 2004 was expected to be approximately $29.8 million or $0.95 per unit. This compared to distributable income of $29.7 million or $1.14 per unit as estimated in the Forecast. With actual Distributable Income of $30.7 million or $0.96 per unit, Chartwell exceeded its revised outlook for the year.

The updated outlook also estimated that REIT's annualized Distributable Income run-rate would be between $1.16 and $1.19 per Unit in the fourth quarter of 2004. With distributable income of $0.305 per Unit in the fourth quarter of 2004 for an annualized distributable income run rate of $1.22 per unit, Chartwell exceeded its revised outlook for the period.

Period ended December 31, 2004 ($,000 except per unit amounts)	**Year ended December 31, 2004 Actual**	**Year ended December 31, 2004 Forecast**	**Three months ended December 31, 2004 Actual**	**Three months ended December 31, 2004 Forecast**
Revenue:				
Retirement Homes	86,154	71,107	29,137	18,558
Long-Term Care facilities	36,986	41,135	10,599	10,334
Mezzanine loan interest	4,635	5,232	1,548	1,277
Management fees:				
Spectrum (1)	5,531	2,172	2,068	599
Other	3,884	3,164	1,946	873
Other income	590	-	108	-
	137,780	122,810	45,406	31,641
Expenses:				
Direct operating	(85,168)	(75,564)	(27,161)	(19,458)
General and administrative	(6,851)	(4,910)	(2,024)	(1,237)
	(92,019)	(80,474)	(29,185)	(20,695)
Income before Interest, depreciation and amortization	45,595	42,336	16,221	10,946
Interest expense	16,901	12,264	6,521	3,159
Income before depreciation and amortization	28,860	30,072	9,700	7,787
Depreciation and amortization(2)	(33,186)	(6,021)	(10,671)	(1,563)
Write down of carrying value of management contracts	(1,660)	-	(1,159)	-
Non-controlling interest	539	-	196	-
Net income (loss)	(5,447)	24,051	(1,934)	6,224
Depreciation and amortization	33,186	6,021	10,671	1,563
Amortization of deferred financing expenses	1,990	288	1,363	72
Amortization of below market leases	(1,358)	-	(409)	-
Amortization of debt premiums, net(3)	(701)	(677)	(74)	(168)
Write down of carrying value of management contracts	1,660	-	1,159	-
Principal portion of capital funding receivable	70	-	19	-
Amounts received under Net Operating Income guarantees	1,883	-	546	-
Non-controlling interest	(539)	-	(196)	-
Distributable Income(4)(6)	30,744	29,683	11,145	7,691
Weighted average number of units outstanding(5)	31,050,303	25,215,932	35,738,309	25,323,365
Weighted average number of units issued pursuant Long Term Incentive Program	843,877	825,000	860,000	825,000
Weighted average number of units outstanding diluted(5)	31,894,180	26,040,932	36,598,309	26,148,365
Distributable Income per unit – basic	0.990	1.177	0.312	0.304
Distributable Income per unit – diluted	0.964	1.140	0.305	0.294
Distributions declared	32,596		9,394	
Distributions per unit - diluted	1.02		0.257	
Payout ratio - diluted	106%		84%	

1) The original Forecast did not contemplate the current policy for recognizing revenue from development management activities (see discussion under Management Fees).
2) The accounting policy for depreciation and amortization used in the Forecast did not contemplate the new policies required to be adopted by all real estate companies effective January 1, 2004 (see discussion under Depreciation and Amortization).
3) Includes amortization of debt discounts of $270 and $42 for the twelve and three months ended December 31, 2004.
4) Includes distributable income of $2,769 and $1,027 for the twelve and three months ended December 31, 2004 respectively attributable to Unitholders of Class B Units of Master LP.
5) Includes the weighted average of 3,103,716 and 3,840,178 of outstanding Class B Units of Master LP for the twelve and three months ended December 31, 2004.
6) Distributable Income is not a measure defined by GAAP (see discussion under Financial Statements and Accounting Policies.

Reconciliation of Distributable Income to Cash Flow from Operating Activities

($000's)	Year ended December 31, 2004	Three months ended December 31, 2004
Cash flow from operating activities	29,490	12,412
Add (Subtract):		
Change in non-cash operating items	309	(1,601)
Amortization of debt discounts	(270)	(164)
Amortization of debt premiums, net	(701)	(74)
Principal portion of capital funding received	70	19
Amounts received under Net Operating Income Guarantees	1,883	546
Other	(37)	6
Distributable Income	30,744	11,144

Reconciliation of Funds from Operations

The following table provides a reconciliation of Funds from Operations to Net Loss as reported in the consolidated financial statements of the REIT for the twelve and three months ended December 31, 2004.

($000's except per unit amounts)	Year ended December 31, 2004	Three months ended December 31, 2004
Net loss per financial statements	(5,447)	(1,934)
Add (subtract):		
Depreciation of real estate assets	12,092	3,973
Amortization of management contracts, resident contracts and customer relationships	21,094	6,698
Depreciation of leasehold improvements included in depreciation of real estate assets	(13)	(4)
Write down of carrying value of management contracts	1,660	1,159
Non-controlling interest	(539)	(196)
Funds from Operations	28,847	9,696
Funds from Operations per unit diluted	0.904	0.265

Revenue

Retirement Homes

	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Retirement Home Revenue(1)	86,154	71,107	29,137	18,558

(1) Retirement Home Revenue includes amortization of below market leases of $1,357 and $409 for the twelve and three months ended December 31, 2004 that was not stipulated by the original Forecast.

For the year ended December 31, 2004, Retirement Home revenues were higher than Forecast due to the contribution from the acquisition of sixteen properties and the acquisition of a 50% interest in eight other properties that were not included in the Forecast. These acquisitions contributed $19.3 million of additional revenue in the year.

The increase in revenue attributable to these acquisitions was offset by the following:

- The REIT did not acquire two Retirement Home properties from Spectrum that were Forecasted to be acquired by September 30, 2004. It is anticipated that these facilities will be acquired in the first 6 months of 2005. The REIT continued to receive management fee revenue and mezzanine interest income from these properties.

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

- The anticipated lease-up of a retirement facility in Western Canada was slowed by a delay in the opening of an adjacent long-term care facility, not owned by the REIT. The vendor of this retirement facility provided the REIT with a net operating income guarantee of $1.0 million to compensate the REIT in the event of a shortfall in actual net operating income compared to Forecast. The REIT had collected on the full income guarantee in 2004. Lease up at this facility had increased from 47% as at June 30, 2004 to 77% as at December 31, 2004 and it is expected that the property will achieve a 90% occupancy in the first quarter of 2005 and that the revenue for 2005 will be in line with the original Forecast.

- Retirement home revenue from the properties initially acquired at the time of the IPO was lower than Forecast due to lower than expected occupancies in certain Ontario markets in 2004. As a result of comprehensive marketing programs implemented at a number of underperforming facilities, the occupancies increased in the second half of 2004. Retirement Home occupancy as of December 31, 2004, based on the number of units occupied, remained strong at 92%, consistent with the occupancy at October 31, 2004 and up from 86% at June 30, 2004.

Fourth Quarter

In the fourth quarter of 2004, the REIT completed the acquisition of four retirement homes and the acquisition of a 50% interest in another seniors housing facility. In aggregate all 2004 acquisitions not contemplated by the Forecast contributed $11.3 million of additional revenue for the three months ended December 31, 2004. This additional revenue was offset by the slower than expected lease-up of a retirement facility in Western Canada and lower than expected occupancies in certain Ontario markets, as discussed above.

Management anticipates that the REIT will continue to grow its retirement home revenue in 2005 through acquisitions, targeted marketing programs and internal growth projects.

Long-Term Care Facilities

	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Long-Term Care Revenue	36,986	41,135	10,599	10,334

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

In addition, revenues from three existing facilities were lower than Forecast:

- A facility that was in lease up at the time of acquisition filled up slower than anticipated. Although this facility was 97% occupied at September 30, 2004, the occupancy has decreased to 92% as of December 31, 2004 due to the opening of two new long-term care facilities in the adjacent area. It is anticipated that this facility will achieve full occupancy by the second quarter of 2005.

- A facility is currently undergoing a capital improvement program, which when completed, will reposition the facility and increase the potential revenue due to the conversion of suites that will create additional preferred accommodation. Construction is progressing on schedule and it is anticipated that it will be completed in the third quarter of 2005 with the resulting benefits commencing at that time.

- A facility was impacted by the opening of two new facilities in the immediate vicinity. These new facilities achieved full occupancies in October 2004, and the REIT's facility returned to 100% occupancy by December 31, 2004.

Fourth Quarter

Revenues from the long-term care facilities for the three months ended December 31, 2004 were higher than the Forecast, due to the revenue contributed by 33 long–term care beds in a retirement facility acquired in the third quarter. This was offset by lower than forecasted revenues from three existing facilities, as discussed above.

Competition in Ontario from the addition of approximately 18,400 new long-term care beds over the past four years is expected to continue putting pressure on occupancies in the short-term on certain of the REIT's long-term care and retirement homes. Management has determined that in markets where the last of the new long- term care facilities have opened, the market for both long-term care and retirement homes has firmed up to pre-addition levels.

Mezzanine Loan Interest

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Mezzanine loan interest	4,635	5,232	1,548	1,277

As of December 31, 2004, the REIT had outstanding $42.8 million of mezzanine loans to Spectrum to finance the development of 27 seniors housing projects. In accordance with the terms of the Development Agreement with Spectrum, such mezzanine loans bear interest at a rate equal to the greater of the yield on five year Canada bonds plus 5% and the REIT's annualized cash distributions yield for the most recent quarter, subject to a minimum rate of 10% per annum and a maximum rate of 14% per annum. All mezzanine loans to Spectrum outstanding as at December 31, 2004 bear interest at 14% per annum, except for one loan for $1 million, which is at 10%.

During the third and fourth quarters of 2004, the REIT also advanced mezzanine loans totaling $9.2 million to other parties in respect of five development projects. These loans bear interest at the rates ranging between 11.5% and 14%. The REIT has an option to acquire the borrowers' interests in these projects at market value, once the properties are stabilized.

Mezzanine loan interest for the twelve months ended December 31, 2004 was below the Forecast due to the following:

- The delay in the advancing of mezzanine loans included in the original Forecast, the majority of which were advanced by the end of third quarter of 2004.

- As previously disclosed, a facility that was originally forecasted to be acquired by Spectrum was acquired by the REIT in the second quarter of 2004. The reduction in mezzanine interest was offset by the operating income that the REIT now receives from this property.

Fourth Quarter

In the fourth quarter of 2004, the REIT advanced $2.8 million of mezzanine loans to Spectrum and $6.8 million of mezzanine loans to entities related to Groupe Melior ("Melior"), a significant joint venture partner of the REIT on other unrelated properties.

Mezzanine loan interest for the three months ended December 31, 2004 was higher than Forecast due to the increased amount of mezzanine loans outstanding. The REIT continues to earn interest on $7.0 million of loans for 2 Spectrum projects that were forecasted to be acquired by the REIT in 2004. As of December 31, 2004, the occupancy at these properties based on the number of residents was 89% and 84%, and the REIT expects to complete these acquisitions in the first half of 2005.

Management continues to evaluate a number of potential development opportunities with Spectrum and other third parties and anticipates it will advance additional mezzanine loans in 2005. The REIT also anticipates it will acquire between 4 to 6 properties from Spectrum in 2005. The mezzanine loans outstanding on these properties will be retired on acquisition and replaced with operating income from the then-owned properties.

Management Fees

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Spectrum	5,531	2,172	2,068	599
Other	3,884	3,164	1,946	873
	9,415	5,336	4,014	1,472

Management fees earned from Spectrum for the year ended December 31, 2004 were higher than Forecast due to the following:

- The REIT earned development management fees of $1.8 million on 8 projects that were not contemplated in the original Forecast.

- The REIT recognizes development management fee revenue using a percentage of completion method based upon the level of effort expended to achieve pre-determined project milestones. The REIT estimates that 65% of the efforts are spent by the time of the commencement of construction. As such the REIT recognizes 65% of the total project development fees upon the earlier of the commencement of construction activity, or the obtaining of the required permit.

  The original Forecast was based upon a different estimate of the revenue earned throughout the development period. The adoption of the current accounting policy resulted in $1.2 million increase in management fees for year ended December 31, 2004 for the projects included in the original Forecast.

- The REIT earned financing fees of $0.9 million for arranging construction credit facilities for Spectrum's projects. These fees were earned pursuant to an agreement between the REIT and Spectrum. These fees were not included in the original Forecast and it is expected that the REIT will continue to earn fees from this source in the future.

Management fees earned from other third parties for the year ended December 31, 2004 were higher than Forecast due to the following:

- Pursuant to the Development Agreements with Melior, the REIT earned development and structuring fees of $1.4 million for the structuring of 2 development projects. The REIT has provided mezzanine loan financing in amount of $6.8 million for these projects and will also be entitled to mezzanine placement and consulting fees of $0.6 million, which are expected to be earned in 2005 and 2006.

- These additional fees were offset by the previously disclosed delays in the commencement of certain management and development projects as well as the loss of four management contracts during 2004.

Management continues to evaluate various opportunities for the provision of development and operations management services for third parties and expects that the anticipated new contracts will generate additional revenue in 2005.

Fourth Quarter

Management fees from Spectrum for the three months ended December 31, 2004 were significantly higher than the Forecast due to the commencement of 4 new development projects in the period, which contributed $1.1 million of development fees and $0.5 million financing fees in the quarter.

Management fees from other third parties for the three months ended December 31, 2004 were higher than Forecast due to mezzanine placement and structuring fees described above.

Other Income

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Other income	590	-	108	-

Other income represents primarily interest income earned in the period on the cash proceeds from public offerings that were not immediately deployed on acquisitions, and other miscellaneous income.

Expenses

Direct Operating Expenses

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Direct operating	85,168	75,564	27,161	19,458

Direct operating expenses for the year ended December 31, 2004 were higher than Forecast due to the increase in the number of facilities owned by the REIT and higher property operating overheads. The higher operating overhead costs were incurred in order to support the current and anticipated growth in the REIT's portfolio. With the infrastructure now in place management expects the impact of these costs on operating profit margins to diminish over time as the portfolio continues to grow.

General and Administrative Expenses

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
General and administrative	6,851	4,910	2,024	1,237

General and administrative expenses, including trust expenses, were higher than Forecast for the year ended December 31, 2004 due primarily to the addition of new staff during the year to manage Chartwell's current and future growth (including a new VP Real Estate Finance, VP Third-Party Management Services, VP Labour Relations, additional general financial support staff and Western Canadian operations personnel) and costs incurred to consolidate multiple offices into a single leased head office facility in Mississauga, Ontario. In addition, Chartwell has experienced higher than anticipated securities regulation compliance costs in 2004 than Forecast. General and Administrative Expenses were 5.0% of gross revenues for the nine months ended September 30, 2004 and 4.5% for the three months ended December 31, 2004.

Interest Expense

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Interest expense	16,901	12,264	6,521	3,159

Interest expense for the year was higher than Forecast due to the additional mortgage debt assumed or arranged in respect of the financing of new acquisitions. The REIT also incurred additional interest costs in respect of the amounts outstanding during the year under its credit lines and secured bridge facilities not contemplated by the Forecast.

Depreciation and Amortization

($,000)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Depreciation and amortization	33,186	6,021	10,671	1,563

Depreciation and amortization expense for the three and twelve months ended December 31, 2004 was significantly higher than Forecast due to the required adoption of two new accounting policies not contemplated in the Forecast. These policies were required to be adopted by all Canadian real estate companies in order to comply with the new CICA requirements of EIC-140 "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination" and Handbook Section 1100 "Generally Accepted Accounting Principles". As a result of the application of EIC -140 amortization expenses increased by approximately $6.0 million ($0.164 per diluted unit) in the fourth quarter and $18.4 million ($0.577 per diluted unit) in the year ended December 31, 2004 compared to Forecast. This was due to the shorter amortization period for acquired resident contracts. The Forecast did not contemplate an allocation of the purchase price to resident contracts. In addition, depreciation expense increased by approximately $2 million ($0.055 per diluted unit) in the fourth quarter and $6.2 million ($0.194 per diluted unit) in the year due to a required change in accounting policy for depreciating real property from the sinking fund method, which had been used in the Forecast, to the straight line method.

Operating Margins

Operating margin is defined as net operating income as a percentage of revenue excluding the amortization of below market leases.

The following table summarizes REIT's operating margins by operating segment for the four quarters of 2004:

% of Revenues	**Q1 2004**	**Q2 2004**	**Q3 2004**	**Q4 2004**	**2004**
RH	39.7%	38.8%	40.1%	39.01%	39.2%
LTC	14.1%	12.6%	11.3%	13.14%	12.6%
Management Operations	69.7%	69.6%	91.5%	87.9%	85.5%

The Retirement Home operating margins for the year ended December 31, 2004 were in line with management's expectations. The margins were positively impacted by the acquisition of Independent Living and Light-Care Retirement Homes in Quebec, Ontario and British Columbia during 2004. These facilities generate higher margins due to the limited services provided to residents. This was offset by lower than expected margins at certain facilities due to occupancy issues and higher than expected operating overheads, as previously discussed in this MD&A.

The operating margins of the long-term care operations for the year ended December 31, 2004 were at the lower end of expectations due to occupancy issues at two facilities (see discussion under Long-Term Care).

The operating margins of the management operations for the year were higher than anticipated due to additional development, financing and structuring earned during the year.

Fourth Quarter

The retirement operations operating margins for the fourth quarter of 2004 were lower than Q3 operating margins, mainly due to higher utilities and compensation expenses in the period. This was consistent with management expectations.

The long-term care margins for the fourth quarter improved from the margins in the second and third as the previous quarters contained revenue reserves for the refund of Ministry of Health funding for the three properties with lower than expected occupancies in the year.

Net Income (Loss)

Net Income was below Forecast primarily due to the significant increase in Depreciation and Amortization expenses as a result of the adoption of required accounting changes, as discussed above and, therefore, is not comparable to the Forecast (see table under Results of Operations).

Distributable Income and Distributable Income per Unit

($,000 except per unit amounts)	Year ended December 31, 2004 Actual	Year ended December 31, 2004 Forecast	Three months ended December 31, 2004 Actual	Three months ended December 31, 2004 Forecast
Distributable Income[(1)(3)]	30,744	29,683	11,145	7,691
Weighted average number of units outstanding[(2)]	31,050,303	25,215,931	35,738,309	25,323,368
Dilutive LTIP	843,877	825,000	860,000	825,000
Weighted average number of units outstanding diluted[(2)]	31,894,180	26,040,432	36,598,309	26,148,365
Distributable Income per unit – basic	0.990	1.177	0.312	0.304
Distributable Income per unit – diluted	0.964	1.140	0.305	0.294
Distributions declared	32,596		9,394	
Distributions per unit - diluted	1.02		0.257	

(1) Includes distributable income of $2,769 and $1,027 for the twelve and three months ended December 31, 2004 respectively attributable to Unitholders of Class B Units of Master LP.

(2) Includes the weighted average of 3,103,716 and 3,840,178 of outstanding Class B Units of Master LP for the twelve and three months ended December 31, 2004.

(3) Distributable income is not a measure defined by GAAP (see discussion under Financial Statements and Accounting Policies).

Distributable Income for the year ended December 31, 2004 was higher than Forecast due to the following:

- Contributions from the acquisitions of interests in 24 seniors housing facilities, which were not contemplated by the original Forecast. These acquisitions contributed approximately $6.1 million of distributable income in the year.

- Larger than forecasted management, financing and mezzanine placement fees from Spectrum and other third parties due to the increase in development activities during the second half of the year. This was not contemplated by the original Forecast, as previously discussed in this MD&A.

- The amounts received under the Net Operating Income Guarantees of $1.9 million, not contemplated by the original Forecast.

These increases were offset by the following:

- The acquisition of eight seniors housing facilities forecasted to close prior to December 31, 2003 was postponed due to regulatory delays. All of these acquisitions were completed by February 11, 2004. Four of these facilities were operated in escrow by the vendors for the account of the REIT, from November 14, 2003 to the date of closing.

- The mezzanine financing advances to Spectrum and related management fees with respect to a portfolio of four seniors housing facilities contemplated by the Forecast were also postponed past the anticipated December 31, 2003 closing date due to regulatory delays.

- Direct operating costs and general and administrative costs were higher than Forecast due to factors outlined earlier in this discussion.

- The REIT experienced certain operating and occupancy issues through the first six months of 2004. As outlined earlier in this discussion, the majority of these issues have been addressed and the occupancies in the identified facilities have increased in the third and fourth quarters of 2004.

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

Fourth Quarter

Distributable Income and Distributable Income per Unit for the three months ended December 31, 2004 were higher than the Forecast primarily due to the positive contribution from acquisitions completed in 2004 and higher than forecasted development, financing, structuring and mezzanine placement fees from Spectrum and other third parties.

QUARTERLY FINANCIAL INFORMATION

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

($000's, except per unit amounts)	Period From November 14, 2003 to December 31, 2003 (restated)	Three Months Ended March 31, 2004 (restated)	Three Months Ended June 30, 2004 (restated)	Three Months Ended September 30, 2004 (restated)	Three Months Ended December 31, 2004
Revenues	$ 9,220	$ 24,093	$ 29,590	$ 38,691	$ 45,406
Direct Operating Expenses	(5,170)	(15,162)	(19,479)	(23,366)	(27,161)
General, Administrative and Trust Expenses	(1,415)	(1,484)	(1,830)	(1,513)	(2,024)
Income before interest, depreciation and amortization	2,635	7,447	8,281	13,812	16,221
Interest Expense	(1,236)	(2,649)	(3,045)	(4,686)	(6,521)
Depreciation and Amortization	(3,006)	(5,664)	(7,581)	(9,270)	(10,671)
Write down of carrying value of management contracts	-	-	(501)	-	(1,159)
Non-controlling interest	103	74	266	3	196
Net Loss for the period	(1,504)	(792)	(2,580)	(141)	(1,934)
Add Back:					
Depreciation and Amortization	3,006	5,664	7,581	9,270	10,671
Amortization of Deferred Financing Costs	41	84	91	452	1,363
Amortization of Below Market Leases	(125)	(260)	(304)	(384)	(409)
Amortization of Debt Premiums	(75)	(162)	(184)	(281)	(74)
Write down of carrying value of management contracts	-	-	501	-	1,159
Principal portion of Capital Funding Receivable	-	12	19	19	19
Amounts received under the Net Operating Income guarantee	-	-	871	466	546
Non-controlling interest	(103)	(74)	(266)	(3)	(196)
Distributable Income	1,240	4,472	5,729	9,398	11,145
Distributable Income Per Unit, diluted	0.045	0.158	0.197	0.285	0.305

Chartwell REIT's quarterly results for the past 4 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 4 quarters to provide additional infrastructure for the REIT's growth.

SELECTED ANNUAL INFORMATION

The following table contains selected financial information for the REIT as of and for the year ended December 31, 2004 and for the period from November 14, 2003 to December 31, 2003.

	Year ended December 31, 2004	Period from November 14, 2003 to December 31, 2004 (restated)
Total Revenue	137,780	9,220
Net Loss	(5,447)	(1,504)
Net Loss per unit	(0.195)	(0.061)
Total Assets	740,252	419,207
Mortgages and Loans Payable	416,038	157,091
Distributions declared[1]	32,596	3,726
Distributions per unit diluted[1]	1.02	0.135

(1) Includes Class B Units of Chartwell Master Care LP and related distributions.

The Total Revenue and Net Loss increased from 2003 due to the fact that the comparative numbers represent only 48 days of operating activities. In addition, the REIT completed the acquisition of interests in 32 seniors housing facilities during 2004. Net Loss also increased due to the adoption of new accounting policies for depreciation and amortization (see discussion under Depreciation and Amortization).

Total Assets and Mortgages and Loans payable increased due to acquisitions in the year.

Distributions per unit remained consistent with the prior period at $0.0854 per unit per month.

UNITHOLDERS TAXATION

In 2004, 85% (2003 – 100%) of the REIT's distributions were made on a tax deferred basis. These amounts are not taxable when received but reduce the Unitholders' adjusted cost base of their Units.

FINANCIAL POSITION

	December 31, 2004	December 31, 2003 (restated)[1]
Real Property Investments	588,812	$276,027
Mezzanine Loans	52,021	24,879
Total Assets	740,252	419,207
Mortgages Payable	374,520	157,091
Loans Payable	41,518	-
Total Liabilities	440,678	175,483
Non-controlling Interest	40,279	21,111
Unitholders' Equity	259,295	222,613
Total Liabilities and Equity	740,252	419,207

(1) The balances for December 31, 2003 and September 30, 2004 were restated to conform with the new accounting policy with respect of Class B Units of Master Care LP. See discussion under Financial Statements and Accounting Policies.

The increase in total assets as at December 31, 2004 compared with December 31, 2003 is due primarily to the completion of the acquisition of additional seniors housing facilities contemplated by the IPO as well as additional seniors housing facilities and a 50% interest in 8 other facilities, and additional mezzanine loans advanced to Spectrum and other parties. The increase in licenses from the year-end is due to the acquisition of long-term care facilities in the first quarter of 2004.

Mortgages payable increased from December 31, 2003 due to financing of acquisitions completed in the period and mortgages assumed in these same transactions. This was partially offset by mortgage principal repayments and the retirement of long-term debt of approximately $42.0 million. As a result of its acquisition activity and investments in mezzanine loans, the REIT accessed its credit facilities and had outstanding loans payable of approximately $41.5 million at December 31, 2004.

The Non-controlling interest increased from December 31, 2003 mainly due to the issuance of approximately 2.1 million Class B Units of Master LP valued at $23 million, offset by $3.3 million of distributions paid on these units.

Outstanding Units Data

The following table summarizes the information with respect to the units outstanding as of December 31, 2004 and December 31, 2003.

	December 31, 2004 Number of Units	**December 31, 2003 Number of Units**
Trust Units	31,913,005	25,325,500
LTIP Units under subscription	860,000	825,000
	32,773,005	26,150,500
Class B Units of Master LP	4,213,149	2,150,000
	36,986,154	28,300,500

PROPERTY PORTFOLIO

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

As at	December 31, 2004	December 31, 2003
Number of suites	6,818	3,319
Number of properties	68(1)	40(2)
Composition (based on the number of suites)		
Independent living	30%	16%
Retirement homes	55%	70%
Long-Term Care facilities	15%	14%

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

(2) As at December 31, 2003, four of these facilities were operated in escrow by the vendors for the account of Chartwell. The acquisition of these facilities was completed on February 11, 2004. Also includes 1 facility in which Chartwell holds a 39% interest.

During the year ended December 31, 2004, the REIT acquired interests in 28 properties (3,581 suites), excluding four properties (500 suites) operated in escrow on December 31, 2003 and acquired by February 11, 2004. The REIT completed the acquisitions of interests in 5 properties totaling 646 suites in the fourth quarter of 2004. In 2004 suites conversions/reconfigurations reduced the total portfolio suite count by 82 suites.

As of December 31, 2004, the REIT's owned portfolio is geographically diversified with 52% of total suites situated in Ontario, 33% in Quebec, 8% in Alberta and 9% in British Columbia. The REIT does not own or manage facilities in the United States.

On June 21, 2004, Chartwell established a new joint venture relationship with Groupe Melior Inc. ("Melior"), a manager and operator of seniors housing facilities in the Province of Quebec. Under the agreement, Chartwell and Melior formed a new management company, 50% owned by each of Chartwell and Melior, to operate all of the properties to be owned by Melior and Chartwell in the Province of Quebec.

Through this joint venture, Chartwell acquired a 50% interest in seven properties in such centres as Aylmer, Hull and Quebec City for approximately $50.6 million. In total, the portfolio consists of 1,032 independent living, assisted living and long-term care suites in operation or in lease-up. Chartwell will also have access to a development pipeline of a further 1,000 suites in properties located throughout the Province of Quebec.

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

As of December 31, 2004, the new management company managed six properties 100% owned by Chartwell in addition to the co-owned properties.

MORTGAGE DEBT

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2004:

Year	Regular Principal	Principal Due at Maturity	Total	Weighted Average Interest Rate of Maturing Debt
2005	10,722	40,608	51,330	4.80%
2006	10,243	31,542	41,785	4.72%
2007	9,864	15,356	25,220	4.81%
2008	9,765	32,626	42,391	5.52%
2009	5,482	92,696	98,178	4.81%
2010-2015	16,562	85,024	101,586	5.66%
2016-2020	2,053	11,977	14,030	6.60%
Total	64,691	309,829	374,520	

The average term to maturity for the total mortgage portfolio is approximately 5.0 years (2003 – 6.0 years), and the weighted average interest rate is 5.23% (2003 – 5.68%). The average term to maturity increased from 4.8 years at September 30, 2004 and the weighted average interest rate decreased from 5.36% as at September 30, 2004.

During the year, the REIT assumed mortgages totaling $160.2 million bearing a weighted average interest rate of 5.2%, and arranged new mortgage financing (or refinanced assumed mortgages) for 15 of its newly acquired facilities in the aggregate amount of $97.6 million. These mortgages bear interest at a weighted average rate of 5.0% and matures on various dates up to February 2014.

The REIT had $8.4 million of variable rate mortgage debt outstanding at December 31, 2004. This debt was assumed on the acquisition of 3 seniors housing facilities in the Province of Quebec in the second quarter of 2004.

In the first quarter of 2004 the vendor of one facility, an entity controlled by certain officers of the REIT, provided Chartwell with a vendor take back mortgage in the amount of $1.4 million (see Transactions with Related Parties section of this MD&A). This mortgage is interest free and matures on December 1, 2005.

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 December 31, 2004 Chartwell's debt leverage ratio was 53.7%. 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 $48.7 million. This would allow the REIT to acquire approximately $121.8 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 December 31, 2004 were as follows:

Payment due by Period	(000's of dollars)						
	Total	2005	2006	2007	2008	2009	Thereafter
Mortgages Payable	374,520	51,330	41,785	25,220	42,391	98,178	115,616
Loans Payable	41,518	41,518					
Operating Leases	4,712	254	425	455	477	477	2,624
Land Rent	7,182	126	126	126	126	126	6,552
Mezzanine Loan Funding Obligations	18,705	18,705	-	-	-	-	-
Purchase Obligations	31,130	29,130	2,000	-	-	-	-
Total Contractual Obligations	477,767	141,063	44,336	25,801	42,994	98,781	124,792

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 eight retirement residences in Ontario and Quebec. Partial advances on three of these projects were made as at December 31, 2004.

Purchase obligations relate to the following:

- The announced acquisition of one long-term care facility for a total purchase price of $19.2 million. It is anticipated that this acquisition will close on April 1, 2005, once the Ontario Ministry of Health's approval has been obtained.

- 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, 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.

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 negotiated and is in the process of finalizing a new secured revolving operating facility for $50 million. At December 31, 2004, the REIT was authorized to borrow up to $30 million under this facility, and had borrowed $28.4 million, part of which was utilized to pay off the existing $25 million revolving credit facility.

The remaining $20 million of this facility has been approved by the lenders subject to completion of legal documentation and due diligence. It is anticipated that the REIT will have sufficient security in place during the first quarter of 2005 to enable it to avail itself of the full credit facility.

Chartwell has also arranged for two secured bridge facilities totaling $13.1 million, which have been fully utilized as of December 31, 2004. These facilities will be repaid from the proceeds of the refinancing of four properties, which secure these loans. It is expected that these facilities will be repaid in the first quarter of 2005.

The REIT completed an offering of Trust Units on August 6, 2004, issuing 6.25 million trust units at $11.25 per unit. The gross proceeds amounted to $70.3 million, which after payment of offering expenses were used to repay the balances outstanding under the REIT's credit facilities and to finance acquisitions and mezzanine loans.

Due to the issues discussed under "Distributable Income and Distributable Income per Unit" section of this MD&A, the REIT's total distributions for the year exceeded the amount of its Distributable Income. These excess distributions were financed by the additional cash received pursuant to the over allotment option exercised by the underwriters on the IPO and the REIT's credit facilities. The Distributable Income for the third and fourth quarter of 2004 exceeded the REIT's distributions and management anticipates that the REIT will continue to generate sufficient cash 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 year ended December 31, 2004, the REIT incurred $3.8 million of capital additions to properties. These expenditures fall within the following major categories:

- Major renovations/long-term replacement items including costs of suites conversions and/or additions of new suites, significant common area renovations, as well as long-term replacement items such as roofing, paving, HVAC, etc.

- Furniture, Fixtures and Equipment ("FF&E") purchases.

The additions to real estate properties were reduced by the proceeds from the settlement of a legal claim related to one of the REIT's properties and amounts receivable under the Net Operating Income guarantees provided to the REIT by the vendor of certain facilities acquired in 2004.

The following table summarizes additions to properties for the year ended December 31, 2004:

(000's)	December 31, 2004
Major renovations and long-term replacement items	1,317
Furniture, Fixtures and Equipment[1]	2,678
Other	740
Net Operating Income guarantee accrual	(901)
Total	3,834

(1) Includes costs associated with the consolidation of the REIT's operations into a single corporate office.

Cash Flows

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

	Year ended December 31, 2004	Period from Nov. 14, 2003 to Dec. 31, 2003
Cash provided by (used) in:		
Operating activities	29,490	(7,560)
Financing activities	126,202	259,246
Investing activities	(195,705)	(211,378)
Increase (Decrease) in cash and cash equivalents	(40,013)	40,308

Cash provided by operating activities increased due to positive funds from operations in the year.

Cash provided by financing activities in 2004 represents mainly the proceeds from the August 2004 secondary offering and proceeds from mortgages and loans payable, offset by debt principal repayments and distributions. Financing activities for the period ended December 31, 2003 include proceeds from the IPO.

Investing activities for the year ended December 31, 2004 represent cash used for the acquisition of interests in 32 seniors housing facilities and advances to Spectrum and other third parties for the development of 22 seniors housing facilities. This compares with the acquisition of 36 properties in the period ending December 31, 2003 (excluding four properties operated in escrow by the vendors for the account of Chartwell) and mezzanine loans advanced for 10 development projects undertaken by Spectrum.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the REIT enters into transactions with various related parties. The following is a summary of significant related party transactions for the period from January 1, 2004 to December 31, 2004:

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 of Long Term Care and Government Relations, Leslie Veiner, Chief Financial Officer, Richard Noonan, Chief Operating Officer and Peter Gaskill, Senior Vice President, Development), provides mezzanine financing for Spectrum's development projects and provides development and operations management services for a fee.

   As of December 31, 2004, the REIT had advanced $42.8 million (December 31, 2003 - $24.9 million) of mezzanine funds to Spectrum. These loans bear interest at the rates between 10% and 14% and are secured by second charges or pledges in interests in 27 seniors' housing development properties. In addition, the REIT has advanced $9.2 million of mezzanine loans to two of Spectrum's joint venture partners (including $6.8 million advanced to entities related to Melior, a significant joint venture partner of the REIT in other unrelated properties) (the "Borrowers"). These loans bear interest at rates between 11.5% and 14% and are secured by the second fixed charge over the five development projects and a pledge of the Borrowers' interest in these 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.

   For the year ended December 31, 2004, the REIT earned interest income of $4.5 million on its mezzanine loans and $4.6 million and $0.9 million respectively of management and financing fees from Spectrum. Other Assets as of December 31, 2004 include $3.2 million due from Spectrum, of which $ 2.9 million was paid subsequent to December 31, 2004.

In addition, accounts receivable includes $0.1 million due from a joint venture where Spectrum holds a 72.5% interest.

ii) During the year ended December 31, 2004, the REIT earned mezzanine placement and structuring fees of $1.4 million from Melior.

iii) In October 2004, the REIT acquired two seniors housing facilities from entities in which Thomas Schwartz, one of the directors of a subsidiary of the REIT held directly or indirectly approximately a 37.5% interest. The purchase price amounted to $18.3 million and was satisfied by the assumption of $4.2 million of existing debt, and by the issuance of 1,183,188 Class B Units of Master LP valued at $14.2 million. The purchase price was determined based on independent appraisals of the properties.

iv) In February, 2004, the REIT acquired three seniors housing facilities from the entities controlled by Brent Binions, Executive Vice President of Long Term Care and Government Relations of the REIT and one facility from the entity controlled by Stephen Suske, Vice Chairman and President of the REIT, Richard Noonan, Chief Operating Officer of the REIT and Peter Gaskill, Senior Vice President, Development of the REIT.

The total consideration amounted to $40.1 million and was settled for a cash payment of $30.8 million, the issuance of 791,855 Class B Units of Master Care LP valued at $7.9 million and a vendor-take-back mortgage of $1.4 million. These acquisitions were contemplated to close at the time of the IPO, but were delayed due to reasons discussed previously. The consideration was based on independent appraisals.

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

RISKS AND UNCERTAINTIES

Business Risks

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

Geographic Concentration

A substantial portion of the business and operations of the REIT is conducted in Ontario, which represents 59% of the total number of properties. The market value of these Properties and the income generated from them could be negatively affected by changes in local and regional economic conditions.

Acquisition and Development

The REIT's external growth prospects will depend in large part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing facilities acquired by the REIT. If the REIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

Competition

Numerous other developers, managers and owners of seniors housing facilities will compete with the REIT in seeking residents. The existence of competing developers, managers and owners and competition for the REIT's residents could have an adverse effect on the REIT's ability to find residents for its seniors housing facilities and on the rents charged, and could adversely affect the REIT's revenues and, consequently, its ability to meet its debt obligations. The supply of LTC Facility suites in the regions in which REIT owns Retirement Homes may have an impact on the demand for suites in Retirement Homes. The Province of Ontario is currently completing an initiative to add 20,000 new LTC Facility beds by the end of 2004. Although more than 18,400 of the new beds are already operational, the increase in supply of LTC Facility suites as a result of this initiative may result in a temporary lower occupancy of suites in the REIT's seniors housing facilities in some markets.

Government Regulation

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

Debt Financing

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

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

Mezzanine Financing

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

Environmental Liabilities

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

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

Liability and Insurance

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

Personnel Costs

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

Labour Relations

Chartwell REIT, directly and indirectly, employs or supervises approximately 3,600 persons, of whom approximately 61% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that the REIT will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on the REIT’s business, operating results and financial condition. However, most seniors housing facilities in the Province of Ontario are governed by the *Hospital Labour Disputes Arbitration Act* which prohibits strikes and lockouts in the seniors housing facility sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

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