



Chartwell Seniors Housing REIT

Annual Report 2004



Profile of Chartwell

Chartwell Seniors Housing REIT is a growth-oriented real estate investment trust owning and managing a complete spectrum of seniors housing properties in select centres across Canada. We are currently the second largest participant in the Canadian seniors housing business, capitalizing on the strong demographic trends present in our markets to grow internally and through accretive acquisitions. Chartwell also has an exclusive option to purchase stabilized facilities from Spectrum Seniors Housing Development LP, Canada's largest and fastest growing developer of seniors housing.

Table of Contents



Highlights	1
Chartwell At-A-Glance	2
Our Business	3
Report to Unitholders	4
Acquisitions	8
Expansions and Renovations	11
Development	12
Third-Party Management	15
Portfolio Table	17
Management's Discussion and Analysis	18
Management's Statement of Responsibility	46
Auditor's Report	46
Balance Sheets	47
Statements of Operations	48
Statements of Unitholders' Equity	49
Statements of Cash Flows	50
Notes to the Financial Statements	51



REVENUE

(\$,000)

Q4.04	45.4
Q3.04	38.7
Q2.04	29.6
Q1.04	24.1

Financial Highlights

YEAR ENDED DECEMBER 31, 2004

(\$,000 EXCEPT PER UNIT AMOUNTS)	ACTUAL	FORECAST
Revenues	137,780	122,810
Distributable Income	30,744	29,683
Distributable Income per unit — diluted	\$ 0.964	\$ 1.14
Distributions declared	32,596	N/A
Distributions per unit — diluted	\$ 1.02	N/A
Weighted Avg Units Outstanding (diluted)	31,894,180	26,040,932

YEAR ENDED DECEMBER 31,	2004	2003
Real Property Investments (\$,000)	588,812	276,027
Number of suites	6,818	3,319



A Year of Significant Growth

1 Acquisition of interests in 4,081 suites expands portfolio by 30%	2 Owned portfolio grows 105% to 6,818 suites	3 Met Distributable Income targets	4 Fourth quarter annualized Distributable Income run-rate of \$1.22 per Unit	5 Fourth quarter payout ratio strong at 84%
---	--	--	--	---

DISTRIBUTABLE INCOME

(\$ per Unit)

Q4.04	0.305
Q3.04	0.285
Q2.04	0.197
Q1.04	0.158

OWNED PORTFOLIO

(number of suites)

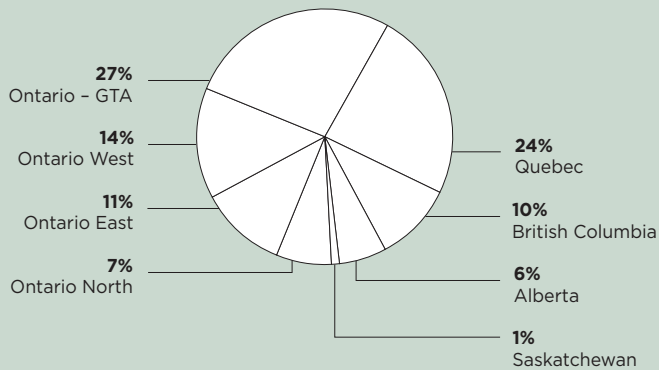
Q4.04	6,818
Q3.04	6,191
Q2.04	5,043
Q1.04	3,879

Chartwell At-A-

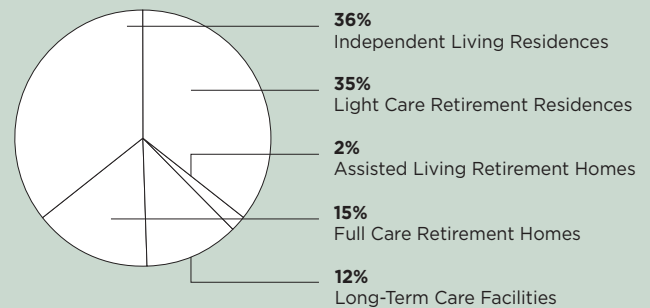
A GROWING AND WELL-BALANCED PROPERTY PORTFOLIO

Owned Suites	6,818
Managed Suites	2,816
Under Development	3,905
Total Suites	13,539

GEOGRAPHIC DIVERSIFICATION



FULL SPECTRUM OF CARE



STRONG OPERATING MARGINS

Operating Margin as % of Revenues 2004

Retirement Homes	39.2%
Long-Term Care Facilities	12.6%



Glance



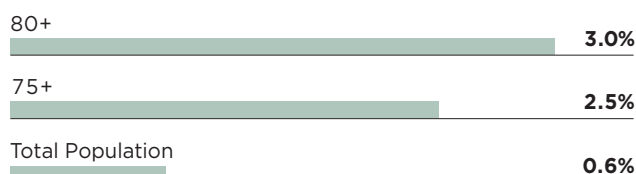
CANADA'S MOST TRUSTED NAME IN SENIORS HOUSING

Our Business

A STABLE AND GROWING MARKET

Population Growth Canada—2001-2026

**Seniors population growing 4-5 times that
of total population:**



CANADIAN SENIORS ARE HEALTHIER WITH INCREASING LIFE EXPECTANCIES:

Year of Birth	Men	Women
1921	59	61
1951	66	71
1991	75	81

Today's seniors are wealthier than ever before, and much more informed about the range of retirement living options available to them. Demand is enhanced by families where both spouses work outside the home and are unable to provide as much personal support and assistance as in the past.

AT CHARTWELL, our Number One priority is the care and service of our residents. We employ only the most skilled and caring staff, people who appreciate the reward of working with seniors and who have truly embraced our priority of care and service.

Our employees possess decades of expertise in providing health care services to seniors as well as depth in many areas of the hospitality business. This wealth of experience ensures the health, comfort and the well-being of all our residents. Our commitment to excellence is second to none.

Chartwell's portfolio is among the most modern and attractive in the business. Our large and comfortable suites, beautiful and functional common areas and our full range of services are all designed to meet the needs of today's most discerning seniors. Our residents are proud to call a Chartwell residence home.

Sophisticated fire, safety and security systems are designed into every building. Communications and emergency response solutions ensure help is just a moment away. Landscaping is always pleasant and inviting while taking into consideration the safety concerns of our residents. At every Chartwell home, the safety and security of our residents is a key priority.

Report to Unitholders

We are very pleased with our growth and performance in our first year as a publicly-traded REIT. Most importantly, we met all our financial and operating targets for the year.

GROWTH AND PERFORMANCE

With our initial public offering in October 2003, Chartwell combined three of the most successful and well-established players in the Canadian seniors housing business to form the second largest owner and operator of seniors residences in the country. In our first full year together in 2004, we generated significant growth and strong financial performance.

We expanded the size and enhanced the quality of our property portfolio, we entered new geographic markets, and we formed new relationships with leading industry participants. Our third-party development arrangements are providing strong cash flows through interest and fees, as well as a pipeline of new properties for us to acquire in the years ahead. We also accelerated our internal growth initiatives, adding new suites, and updating and renovating existing properties to further increase cash flows.

Most importantly, after a slower than anticipated start to the year, we exceeded our revenue forecasts and our outlook for distributable income for 2004. As a result of this strong performance, early in 2005 we implemented our first increase in monthly cash distributions.

STRONG PORTFOLIO GROWTH

During 2004 we acquired interests in 32 properties containing 4,081 seniors housing suites. The majority of the growth occurred in our owned portfolio, which increased by 105% during the year.

As we have grown, we have focused our efforts on expanding our presence primarily in the independent living and light care sector, one that best suits our expertise and where we can generate the highest cash flow. As the huge baby boom generation enters its retirement years, these are the first services they will obtain. Independent living and light care suites represented approximately 71% of our total portfolio at year-end, up from 55% at the time of the IPO.

In addition, we are ensuring we can offer a full spectrum of care to our residents in the majority of our markets. By providing today's seniors with accommodation and services from independent living, through retirement homes to fully-serviced long-term care, we possess a strong and unique competitive advantage as we can retain our residents through all phases of their retirement years.

From left to right:
Brent Binions, Robert Ezer,
Stephen Suske



EXPANDING OUR PRESENCE

We have also steadily diversified our portfolio and increased our presence in most major urban centres across Canada. Over the last year we entered the Province of Quebec, expanded our presence in British Columbia and southwestern Ontario, and established a strong presence in northern Ontario.

The formation of a new joint venture management company in Quebec with our partner Le Groupe Melior was a key achievement. We purchased a 50% interest in seven retirement homes owned by Melior, and we have access to a development pipeline of a further 1,000 suites in properties located throughout the Province. We followed this transaction with the acquisition of an additional five properties in Quebec.

The Melior relationship brings a number of benefits. We acquired a unique portfolio of properties with high and very stable occupancies that immediately contributed to our distributable income. We also entered into a strategic relationship with an established and proven participant in the Quebec seniors housing business, providing us with a solid growth platform going forward.

ORGANIC GROWTH

Internal growth will come from enhancing the already high occupancies in our properties and through the introduction of innovative new services to our residents. We are also confident that cash flow will increase over time as we capture the economies of scale resulting from our growing portfolio, as well as enhanced efficiencies in administration, operations, purchasing and cost control.

In addition, late in 2004 we began a number of projects to expand, update and reposition certain of our existing facilities. These projects increase distributable cash through revenues from new suites, and generate higher fees and occupancies for the renovated and updated facilities.

Report to Unitholders

DEVELOPMENT RELATIONSHIPS ENHANCE CASH FLOW AND FUTURE GROWTH

We are building what we believe is the highest quality and most modern portfolio in the Canadian seniors housing business. More than two-thirds of our growing portfolio is now less than ten years old and, looking ahead, our development activities will further enhance this industry-leading quality.

With its initial public offering, Chartwell established a relationship with Spectrum Seniors Housing Development LP, Canada's largest and fastest growing developer of seniors residences. We have the option to provide mezzanine financing to Spectrum, and then acquire the brand new facilities once they are built and fully stabilized. In the interim, we receive interest on our loans as well as fees for development, marketing and management.

As of December 31, 2004 we had access to over 3,900 suites currently under development by Spectrum and our other third-party partners. During the year, we extended \$27.1 million in financing for the development of 22 new facilities, generating strong interest and fee revenue for our Unitholders.

LEVERAGING OUR CONSIDERABLE EXPERIENCE

As one of Canada's largest third-party managers of seniors living facilities, we are leveraging our skills and experience to provide operations and marketing support to third-party owners across Canada. Including those properties in lease-up phases by Spectrum, Melior and others, as of December 31, 2004 we were under contract to provide management services for 2,100 suites in 19 properties. In addition to generating fees, we also gain valuable insight into new markets and the potential for future acquisitions.

SOLID FINANCIAL PERFORMANCE

All of these accomplishments led to consistent growth in our financial performance with each successive quarter in 2004, and we were proud to have met all our financial and operating targets for the year. As a result, we announced our first increase in monthly cash distributions effective in March 2005. Our key objective remains to deliver stable and growing cash distributions to our Unitholders, and we look forward to further increases as we build on the considerable progress demonstrated in 2004.

AN EXCITING FUTURE

As we look ahead, we are very excited about our future. Our markets are growing, driven by powerful demographics and the fact that today's seniors are healthier, wealthier and wiser than ever before. As a large and growing company, we have the financial resources and the expertise to capitalize on these solid industry fundamentals. Our modern, high quality portfolio is expanding in most major centres, and our unique ability to offer a full spectrum of care for our residents is a distinct competitive advantage.

But we believe we have only just begun to grow. The Canadian seniors housing market remains highly fragmented, and with our proven track record, strong reputation and years of experience in the business, we are growing a brand that is now recognized as "Canada's most respected name in seniors housing". Looking ahead, we have solid opportunities for growth, both internally and through acquisitions, and our affiliation with Spectrum provides an important pipeline for new, fully stabilized facilities.

In closing, we want to thank everyone at Chartwell for their hard work and commitment in our first full year together. It is these efforts that generated such strong performance in 2004, and will contribute to our growth going forward.



Stephen A. Suske
VICE CHAIR AND PRESIDENT



Robert Ezer
CHIEF EXECUTIVE OFFICER



Brent Binions
EXECUTIVE VICE PRESIDENT



WillowManor, Maple Ridge, British Columbia
Chateau Bordeaux, Quebec City, Quebec
Rideau Place, Ottawa, Ontario,




GROWTH DRIVERS Acquisitions

IN 2004 WE ACQUIRED interests in thirty-two facilities containing 4,081 suites. These acquisitions expanded our total portfolio by over 30%. More importantly, our owned portfolio grew by 105% to 6,818 suites in 68 properties.

Acquisition opportunities must fit our rigorous property due diligence, help us provide a full spectrum of care in the regions where we operate, and be accretive to our Unitholders.

We entered Quebec in 2004, forming a joint venture management company with Le Groupe Melior, one of the most respected names in the Province's seniors housing business. We acquired 1,028 suites from Melior, and then followed with the purchase of another 1,166 suites. We will continue to grow our presence in Quebec.

We established a strong foothold in Southwestern Ontario with the purchase of two properties in and around Windsor, Ontario, as well as growing our presence in the Lower Mainland of British Columbia with the acquisition of five properties. In the first quarter of 2005 we expanded our presence in the Northern Ontario market through the acquisition of five facilities in Sudbury, Timmins, North Bay, Thunder Bay and Pembroke. 



freedom



comfort



Résidence Principale, Cowansville, Quebec
Willoughby Manor, Niagara Falls, Ontario
Monastere d'Aylmer, Aylmer, Quebec



GROWTH DRIVERS Expansions and Renovations

IN 2004 WE ACCELERATED our program to add suites at a number of our owned facilities. By expanding our residences, we generate strong return on investment while capturing increased economies of scale. In total, projects initiated in 2004 will add 234 suites at four properties in Ontario and Quebec in 2005 and 2006.

During 2004 we initiated a number of projects to upgrade and renovate certain of our properties. These improvements included significant investments in landscaping, property exteriors, front lobbies and suite improvements. Enhanced revenues are generated by higher occupancies and increased fees.

We are converting vacant office space into 18 new luxury suites at our New Edinburgh Square residence in Ottawa.

At our Gibson Long-Term Care facility in North York, Ontario, we are upgrading a number of suites, creating new private rooms and constructing a new front lobby and entrance. 



Regency, Mississauga, Ontario
 Avondale Retirement Residence, Toronto, Ontario
 Thornhill Retirement Village, Thornhill, Ontario



GROWTH DRIVERS Development

OUR RELATIONSHIP with Spectrum Seniors Housing Development LP, Canada's fastest growing developer of seniors residences, provides us with a pipeline of new properties for acquisition. Chartwell has the option to acquire residences developed by Spectrum once they are fully operational with a stabilized occupancy of 90%.

As of December 31, 2004 Chartwell had exclusive access to a portfolio of over 3,900 suites currently under development by Spectrum. We intend to acquire between four and six of these properties in 2005.

Chartwell's relationships with third-party developers, including Spectrum, provide Unitholders with interest from mezzanine loans as well as development and management fees. At the same time, Unitholders are protected from any risk associated with the development and lease-up phase of a new facility.

Early in 2005 we acquired our first property developed by Spectrum. The Glacier Ridge Retirement Residence is a brand-new, 78 suite light care facility located in Thunder Bay Ontario. Occupancy stood at 90% at the time of purchase, and is growing. *~*



respect



family


Glen Abbey, Oakville, Ontario
Renaissance, Langley, British Columbia
Cawthra Gardens, Mississauga, Ontario



GROWTH DRIVER Third-Party Management

AS ONE OF CANADA'S LARGEST owners and operators of seniors housing facilities, we are leveraging our considerable experience and success to manage seniors residences for third-party owners. We help our clients with market positioning, facility promotion and improving the operational efficiency of their seniors housing facilities. In addition, our facility and program development services assist our clients with site selection, rezoning, obtaining necessary approvals and advising on design specification for facilities under development.

As of the year end, we were providing various management services to 2,100 suites in 19 facilities owned by Spectrum, Melior and other established developers and owners across the country.

In addition to generating high-margin fees and cash flow for Chartwell and our unitholders, our third-party management business also provides us with valuable insight into other markets and the opportunity to acquire certain operating facilities or residences under development once they are fully stabilized. We are also building strong relationships with leading developers of seniors residences to grow our pipeline of potential future acquisitions. 



dignity

Summary of Seniors Housing Facilities

OWNED, MANAGED AND UNDER DEVELOPMENT

	NUMBER OF FACILITIES	NUMBER OF SUITES/ROOMS ⁽¹⁾	AVERAGE RESIDENT OCCUPANCY ⁽²⁾
Chartwell REIT			
Seniors Housing Facilities Owned by Chartwell REIT			
Independent Living Facilities	15	2,064	95%
Retirement Homes	45	3,768	92%
Long-Term care Facilities	8	986	97%
Total Owned by REIT	68 ^{(3), (4)}	6,818	93%
Seniors Housing Facilities Managed by Chartwell REIT for Third Parties – (Stabilized or in Lease-Up)			
Independent Living Facilities	5	734	
Retirement Homes	9	768	
Long-Term care Facilities	5	601	
Subtotal	19 ^{(4), (5)}	2,103	
Seniors Housing Facilities Managed by Chartwell REIT for Third Parties – (Under Development)			
Independent Living Facilities	4	435	
Retirement Homes	2	278	
Long-Term care Facilities	0	0	
Subtotal	6 ^{(1), (5)}	713	
Total Managed for Third Party	25	2,816	
Seniors Housing Facilities Owned by Spectrum and Managed by the REIT – (In Lease-Up) ⁽⁶⁾			
Independent Living Facilities	0	0	
Retirement Homes	11	942	
Long-Term care Facilities	0	0	
Subtotal	11 ⁽⁷⁾	942	
Seniors Housing Facilities Under Development by Spectrum ^{(8), (9)} and Managed by the REIT and Seniors Housing Facilities Under Development by Melior ⁽¹⁰⁾			
Independent Living Facilities	12	1,663 ⁽¹¹⁾	
Retirement Homes	12	1,278	
Long-Term care Facilities	0	22	
Subtotal	24 ^{(4), (12)}	2,963	
Total Spectrum and Managed by REIT	35	3,905	
Total Homes Owned or Managed by REIT	128	13,539	

(1) As of December 31, 2004. The number of suites within a facility may vary from time to time as suites may be reconfigured to meet residents' needs.

(2) The Average Resident Occupancy Rate is only provided for facilities owned by the REIT. Refers to the weighted average of the Resident Occupancy Rate of each facility as of December 31, 2004 based on the number of suites housed at each facility with the same type of care, but does not include facilities in which the REIT has a 50% interest through its joint venture with Melior and in respect of which it has a revenue guarantee from Melior.

(3) Twelve of these facilities provide more than one type of care. All of these facilities are owned 100% by the REIT, except for one facility which is owned 39% by the REIT, one facility which is 50% owned by the REIT and seven facilities which are 50% owned by the REIT through its joint venture with Melior. As well, the land on which one of the facilities is located is held through a long term leasehold interest.

(4) Where the facility provides more than one level of care, it has been designated according to the predominate level of care provided.

(5) Three facilities provide more than one type of care. The management by the REIT of two of these properties will commence on April 1, 2005.

(6) One facility provides more than one type of care.

(7) One of these projects will be sold by Spectrum to its joint venture partner and the operator will be repaid all advanced mezzanine loans.

(8) Spectrum's percentage interest in these properties varies from property to property.

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

(10) Melior, either solely or with its joint venture partner(s), is currently developing eight projects in Quebec with an intended 889 suites included in this amount. The REIT may provide mezzanine financing in respect of these projects and, with the exception of three projects which are additions to facilities currently 50% owned by the REIT, upon stabilization the REIT may acquire the developed facilities.

(11) 197 suites are in respect of additions being made to three facilities currently 50% owned by the REIT through its joint venture with Melior.

(12) Three facilities provide more than one type of care.

Management's Discussion and Analysis

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

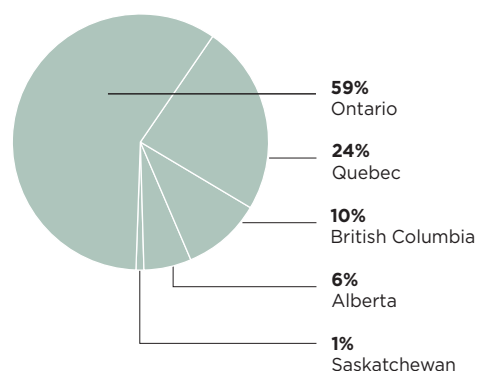
The REIT commenced operations on November 14, 2003 following completion of its Initial Public Offering ("IPO"). The REIT did not hold any material assets prior to November 14, 2003 and is considered to have begun operations on that date.

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

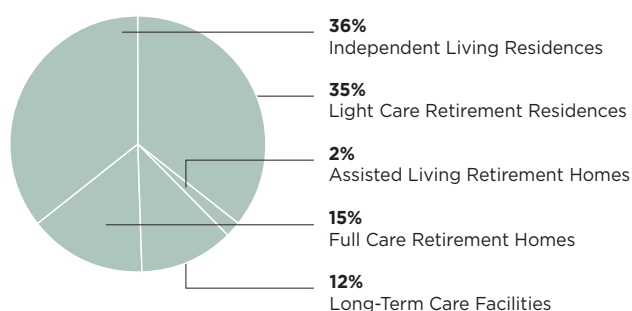
care from independent living facilities (“IL Facilities”), through retirement homes (“Retirement Homes”) to long-term care facilities (“LTC Facilities”), all of which are located in Canada. All references to “Chartwell” or “the REIT”, unless the context otherwise requires, means the REIT and its subsidiaries. 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.

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.

COMPOSITION OF PORTFOLIO OF OWNED AND MANAGED SUITES BY GEOGRAPHICAL LOCATION



COMPOSITION OF PORTFOLIO OF OWNED AND MANAGED HOMES BY LEVEL OF CARE



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 Rivières, 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 Richelleau, 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 property 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.

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

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 its 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 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 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 expended 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)	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 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

(\$,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
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

(\$,000)	YEAR ENDED DECEMBER 31, 2004	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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

	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
(\$,000)				
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

	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
(\$,000)				
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

	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
(\$,000)				
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	YEAR ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2004
	ACTUAL	FORECAST	ACTUAL	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:

	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
(\$,000 EXCEPT PER UNIT AMOUNTS)					
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.

(\$,000 EXCEPT PER UNIT AMOUNTS)	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

(\$,000)	DECEMBER 31, 2004	DECEMBER 31, 2003 (RESTATED) ⁽¹⁾
Real Property Investments	588,812	\$276,027
Mezzanine Loan	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 suite	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)						
	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 NOVEMBER 14, 2003 TO DECEMBER 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

TO THE UNITHOLDERS OF CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

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



Stephen Suske
VICE CHAIR AND PRESIDENT
February 4, 2005



Leslie Veiner
CHIEF FINANCIAL OFFICER
February 4, 2005

AUDITORS' REPORT

TO THE UNITHOLDERS OF CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

We have audited the consolidated balance sheets of Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell REIT") as at December 31, 2004 and 2003 and the consolidated statements of operations, unitholders' equity and cash flows for the year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003. These financial statements are the responsibility of Chartwell REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chartwell REIT as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and period from November 14, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.



KPMG LLP
CHARTERED ACCOUNTANTS
Toronto, Canada
February 4, 2005

CONSOLIDATED BALANCE SHEETS (In thousands of Canadian dollars)

DECEMBER 31, 2004 AND 2003

	2004	2003
		(Restated - note 1(n))
ASSETS		
Properties (note 3)	\$ 588,812	\$ 276,027
Mezzanine loans receivable (note 4)	52,021	24,879
Management contracts, resident contracts and customer relationships (note 5)	55,055	43,518
Cash and cash equivalents	295	40,308
Other assets (note 6)	25,639	24,175
Licenses	8,130	—
Goodwill	10,300	10,300
	\$ 740,252	\$ 419,207

LIABILITIES AND UNITHOLDERS' EQUITY

Liabilities:

Mortgages payable (note 7)	\$ 374,520	\$ 157,091
Loans payable (note 8)	41,518	—
Accounts payable and other liabilities (note 9)	21,482	14,625
Distributions payable	3,158	3,767
	440,678	175,483

Non-controlling interest (note 10)	40,279	21,111
------------------------------------	---------------	---------------

Unitholders' equity	259,295	222,613
---------------------	----------------	----------------

Commitments and contingencies (notes 16 and 17)

	\$ 740,252	\$ 419,207
--	-------------------	-------------------

See accompanying notes to consolidated financial statements.

Approved by the Trustees:



CHARLES MOSES
Trustee



JOSEPH WRIGHT
Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands of Canadian dollars, except per unit amounts)

YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM NOVEMBER 14, 2003 TO DECEMBER 31, 2003

	2004	2003
		(Restated -note 1(n))
REVENUE:		
Resident	\$ 123,140	\$ 8,083
Mezzanine loan interest (note 4)	4,635	478
Management and financing fees (note 14)	9,415	494
Other	590	165
	137,780	9,220
EXPENSES:		
Direct operating	85,168	5,170
General, administrative and trust	6,851	1,415
	92,019	6,585
	45,761	2,635
Interest expense (note 14)	16,901	1,236
	28,860	1,399
Depreciation of properties	12,092	980
Amortization of management contracts, resident contracts and customer relationships	21,094	2,026
Write-down in carrying value of management contracts and customer relationships (note 5)	1,660	—
	(5,986)	(1,607)
Non-controlling interest (note 10)	539	103
Loss for the period	\$ (5,447)	\$ (1,504)
Loss per unit (basic and diluted) (note 12)	\$ (0.195)	\$ (0.061)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY (In thousands of Canadian dollars)

YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM NOVEMBER 14, 2003 TO DECEMBER 31, 2003

	UNITS ISSUED IN DOLLARS, NET	LTIP UNITS UNDER SUBSCRIPTION	LTIP INSTALMENT LOAN RECEIVABLE	LOSSES	DISTRIBUTIONS	TOTAL
	(note 11)					
Unitholders' equity, November 14, 2003	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of Trust Units	253,255	—	—	—	—	253,255
Issue costs	(26,160)	—	—	—	—	(26,160)
Trust Units issued under the Long-Term Incentive Program	—	8,753	(8,250)	—	—	503
Loss for the period	—	—	—	(1,504)	—	(1,504)
Interest on instalment loan receivable	—	—	(41)	—	—	(41)
Distributions to unitholders	—	—	—	—	(3,440)	(3,440)
Unitholders' equity, December 31, 2003	\$ 227,095	\$ 8,753	\$ (8,291)	\$ (1,504)	\$ (3,440)	\$ 222,613

YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM NOVEMBER 14, 2003 TO DECEMBER 31, 2003

	UNITS ISSUED IN DOLLARS, NET	LTIP UNITS UNDER SUBSCRIPTION	LTIP INSTALMENT LOAN RECEIVABLE	LOSSES	DISTRIBUTIONS	TOTAL
	(note 11)					
Unitholders' equity, December 31, 2003, as previously stated	\$ 248,595	\$ 8,753	\$ (8,291)	\$ (1,607)	\$ (3,726)	\$ 243,724
Restatement (note 1(n))	(21,500)	—	—	103	286	(21,111)
Unitholders' equity, December 31, 2003, as restated	227,095	8,753	(8,291)	(1,504)	(3,440)	222,613
Loss for the year	—	—	—	(5,447)	—	(5,447)
Distributions to unitholders	—	—	—	—	(29,294)	(29,294)
Issuance of Trust Units pursuant to secondary public offering	70,313	—	—	—	—	70,313
Issuance of Trust Units on acquisition of properties	3,000	—	—	—	—	3,000
Issuance of Trust Units under the Distributions Reinvestment Program	937	—	—	—	—	937
Trust Units issued under the Long-Term Incentive Program	—	423	(402)	—	—	21
Issue costs	(3,870)	—	—	—	—	(3,870)
Repayment of instalment loan receivable	—	—	432	—	—	432
Interest on instalment loan receivable	—	—	(312)	—	—	(312)
Distributions applied against instalment loan receivable	—	—	902	—	—	902
Unitholders' equity, December 31, 2004	\$ 297,475	\$ 9,176	\$ (7,671)	\$ (6,951)	\$ (32,734)	\$ 259,295

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands of Canadian dollars)

YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM NOVEMBER 14, 2003 TO DECEMBER 31, 2003

	2004	2003
	(Restated - note 1(n))	
Cash provided by (used in):		
OPERATING ACTIVITIES:		
Loss for the period	\$ (5,447)	\$ (1,504)
Items not affecting cash:		
Depreciation and amortization	33,186	3,006
Write-down in carrying value of management contracts and customer relationships	1,660	—
Amortization of below-market resident contracts	(1,358)	(125)
Option benefit granted under the Long-Term Incentive Plan	21	503
Income from long-term investment	(30)	—
Distributions received on long-term investment	46	—
Non-controlling interest	(539)	(103)
	27,539	1,777
Amortization of deferred financing expenses	1,990	41
Amortization of debt discounts	270	13
Change in non-cash operating items	(309)	(9,391)
	29,490	(7,560)
FINANCING ACTIVITIES:		
Proceeds from mortgage financing	97,571	44,550
Mortgage principal repayments	(42,012)	(251)
Proceeds from loans payable	60,386	—
Repayment of loans payable	(18,868)	—
Deferred financing costs	(6,071)	(1,793)
Trust Units issued	70,313	242,900
Issue costs	(3,870)	(26,160)
Distributions paid	(28,450)	—
Distributions paid to non-controlling interest unitholders	(3,229)	—
Deposits received under Long-Term Incentive Plan	432	—
	126,202	259,246
INVESTING ACTIVITIES:		
Acquisition of assets, net of debt assumed and units issued (note 2)	(168,247)	(173,431)
Payment of deferred consideration on acquisitions of properties	(5,694)	—
Payment of amounts payable for closing adjustments	(3,858)	—
Additions to properties	(3,834)	(68)
Mezzanine loans receivable	(27,142)	(24,879)
Restricted cash	13,000	(13,000)
Capital funding receivable	70	—
	(195,705)	(211,378)
Increase (decrease) in cash and cash equivalents	(40,013)	40,308
Cash and cash equivalents, beginning of period	40,308	—
Cash and cash equivalents, end of period	\$ 295	\$ 40,308
Supplemental cash flow information:		
Interest paid	\$ 14,488	\$ 604

Supplemental cash flow information (note 18)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of Canadian dollars, except per unit amounts)

YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM NOVEMBER 14, 2003 TO DECEMBER 31, 2003

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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of presentation:

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

B. Business combinations:

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

C. Properties:

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

Properties are depreciated on a straight-line basis over their estimated useful lives as follows:

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

D. Deferred expenses:

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

E. Goodwill and other intangibles:

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

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

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

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

F. Licenses:

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

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

G. Long-term investment:

The long-term investment represents an investment subject to significant influence and is accounted for under the equity method.

H. Cash and cash equivalents:

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

I. Revenue:

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

Facility management fees are recognized when services are provided.

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 project milestones. No development management revenue is recognized prior to obtaining relevant permits or commencement of construction activities.

Revenue from financing fees and structuring fees are recognized upon completion of the contracted services.

Mezzanine placement fees are deferred and recognized to income as a yield adjustment on related mezzanine loans.

J. Long-Term Incentive Plan:

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

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

K. Income taxes:

Chartwell REIT is an unincorporated open-ended investment trust created by the Declaration of Trust. Chartwell REIT will be taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, Chartwell REIT intends to make distributions not less than the amount necessary to ensure that it will not be liable to pay income taxes.

L. Financial derivatives:

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

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

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

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

M. Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. In determining the fair value of assets and liabilities of businesses it acquires, the estimated useful lives and net recoverable amounts for properties, as well as the fair value of goodwill, Chartwell REIT relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

N. Change in accounting policy:

In response to 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' financial statements (note 10). As a result, the net loss was reduced by \$539 (0.019 per unit) and \$103 (0.004 per unit) for the year ended December 31, 2004 and for the period from November 14, 2003 to December 31, 2003, respectively. Unitholders' equity was reduced by \$40,279 and \$21,111 at December 31, 2004 and 2003, respectively.

The Emerging Issues Committee 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 Chartwell REIT may be required to change its application of the EIC-151.

NOTE 2 ACQUISITIONS:

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

	2004	2003
ASSETS		
Properties	\$ 321,043	\$ 276,939
Land held for development	1,600	—
Licenses	8,130	—
Management contracts, resident contracts and customer relationships	34,288	45,544
Goodwill	—	10,300
Long-term investment	—	1,539
Capital funding receivable	2,824	—
	367,885	334,322
LIABILITIES		
Mortgages payable	160,242	112,779
Below-market resident contracts	2,122	2,853
Working capital	2,212	11,646
	164,576	127,278
Net assets acquired	\$ 203,309	\$ 207,044
Settled by:		
Issuance of Trust Units	\$ 3,000	\$ 8,255
Issuance of Class B Units of Chartwell Master LP	23,010	21,500
Vendor take-back mortgage	1,358	—
Deferred consideration on acquisition of properties	7,694	—
Amounts payable for closing adjustments	—	3,858
Cash	168,247	173,431
	\$ 203,309	\$ 207,044

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

A. Acquisitions during the period from November 14, 2003 to December 31, 2003:

On November 14, 2003, Chartwell REIT issued 21.0 million Trust Units for cash of \$210,000 pursuant to an initial public offering (the "Offering") and 957,200 Trust Units for \$9,572 pursuant to a private placement. On November 24, 2003, Chartwell REIT issued 3.15 million Trust Units for cash of \$31,500 pursuant to an over-allotment option and on November 28, 2003, it issued 78,300 Trust Units for \$783 pursuant to a second private placement. Costs related to the Offering amounted to \$26,160, including \$1,400 in costs that were settled on November 14, 2003 through the issuance of 0.14 million of additional Trust Units.

i) Acquisition of Alert Care Corporation:

On November 14, 2003, Chartwell REIT used a portion of the net proceeds of the Offering to acquire all the outstanding shares and options of Alert Care Corporation ("Alert") for consideration of \$112,650 plus acquisition costs and an estimated \$3,858 working capital adjustment. Chartwell REIT has a direct interest in Alert's 23 properties and five management contracts. It disposed of the development business of Alert to Spectrum Seniors Housing Development LP ("Spectrum"), a limited partnership related to Chartwell REIT by virtue of common management, immediately following the Offering, at Chartwell REIT's cost, for \$3,700 in cash and the provision of \$24,879 in mezzanine loans receivable.

ii) *Other acquisitions:*

On November 14, 2003, Chartwell REIT used a portion of the net proceeds of the Offering to acquire an interest in 14 properties (including a 50% interest in a property where the remaining interest was sold to Chartwell REIT by Alert) and a seniors housing and development management business from multiple vendors for consideration of \$121,676.

Two of these properties were acquired from an entity controlled by an officer of Chartwell REIT. The purchase price for these properties amounted to \$16,347 and was settled for a cash payment of \$6,151, assumption of existing mortgages of \$6,596 and a vendor-take back mortgage of \$3,600.

The management business was acquired from an entity controlled by an officer of Chartwell REIT. The purchase price amounted to \$20,000 and was settled through the issuance of 2 million Class B Units of Master LP.

B. During the year ended December 31, 2004, Chartwell REIT completed the acquisitions of 24 seniors housing facilities and a 50% interest in eight other facilities for total consideration of \$203,309.

Included in these acquisitions are:

- i) The acquisition of 50% interest in seven facilities in Quebec for a total purchase price of \$18,424 (note 16);
- ii) Four long-term care facilities acquired from entities controlled by officers of Chartwell REIT for a total purchase price of \$40,126. These properties were previously managed by Chartwell REIT (note 14(c)); and
- iii) Two retirement homes acquired from entities in which one of the directors of a subsidiary of Chartwell REIT holds a significant interest, for a total purchase price of \$14,300.

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.

NOTE 3 PROPERTIES:

	2004			2003		
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Land	\$ 65,745	\$ —	\$ 65,745	\$ 26,900	\$ —	\$ 26,900
Buildings	516,570	10,205	506,365	242,816	786	242,030
Furniture, fixtures and equipment	19,569	2,867	16,702	7,291	194	7,097
	\$ 601,884	\$ 13,072	\$ 588,812	\$ 277,007	\$ 980	\$ 276,027

NOTE 4 MEZZANINE LOANS RECEIVABLE:

In accordance with the terms of a Development Agreement dated November 14, 2003 ("Development Agreement") as amended, Chartwell REIT has advanced mezzanine loans of \$42,800 (2003 - \$24,879) to Spectrum, a limited partnership related to Chartwell REIT by virtue of common management. 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 Chartwell REIT's annualized 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 December 31, 2004 bear interest at rates of 10% to 14% per annum and are secured by second charges or pledges of Spectrum's interest over 27 (2003 - 10) 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.

In addition, Chartwell REIT has advanced mezzanine loans totalling \$9,221 to two of Spectrum's joint venture partners (the "Borrowers"). One of the borrowers, with an outstanding loan balance of \$6,820 at December 31, 2004 is a significant joint venture partner of Chartwell REIT on other unrelated properties. These loans bear interest at rates between 11.5% and 14% payable monthly and are secured by second fixed charges or pledges of the Borrowers' interests over five 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.

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.

NOTE 5

MANAGEMENT CONTRACTS, RESIDENT CONTRACTS AND CUSTOMER RELATIONSHIPS:

	2004			2003		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Management contracts	\$ 4,721	\$ 1,186	\$ 3,535	\$ 6,213	\$ 404	\$ 5,809
Resident contracts	68,418	20,394	48,024	34,131	1,496	32,635
Customer relationships	4,507	1,011	3,496	5,200	126	5,074
	\$ 77,646	\$ 22,591	\$ 55,055	\$ 45,544	\$ 2,026	\$ 43,518

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

During the year ended December 31, 2004, the termination of four management contracts resulted in a write-down of \$1,123 and \$537 in the carrying value of management contracts and customer relationships, respectively.

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

NOTE 6 OTHER ASSETS:

	2004	2003
Accounts receivable	\$ 4,925	\$ 5,093
Deferred financing costs, net of accumulated amortization of \$2,031 (2003 - \$41)	5,833	1,752
Capital funding receivable	2,754	-
Long-term investment	1,523	1,539
Restricted cash	-	13,000
Due from Spectrum (note 14(a))	3,127	539
Land held for development	1,600	-
Prepaid expenses	2,537	768
Other	3,340	1,484
	\$ 25,639	\$ 24,175

Included in other income for the year ended December 31, 2004 is \$30 of income earned from Chartwell REIT's long-term investment.

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

In accordance with an Escrow Agreement dated November 14, 2003, Chartwell REIT was required to hold \$13,000 in escrow for the benefit of the vendor of three long-term care facilities, an entity controlled by an officer of Chartwell REIT, until certain regulatory approvals are obtained and Chartwell REIT can close the acquisition. The agreement required the vendor to operate the properties for the account of the purchaser until February 11, 2004, when the necessary approvals were obtained and Chartwell REIT completed the acquisition of the facilities.

NOTE 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
2005	\$ 10,722	\$ 40,608	\$ 51,330
2006	10,243	31,542	41,785
2007	9,864	15,356	25,220
2008	9,765	32,626	42,391
2009	5,482	92,696	98,178
	46,076	212,828	258,904
Thereafter	18,615	97,001	115,616
	\$ 64,691	\$ 309,829	\$ 374,520

	2004	2003
Mortgages at fixed rates	\$ 366,123	\$157,091
Interest rates	3.28% - 8.95%	4.15% - 7.75%
Weighted average rate	5.23%	5.68%
Mortgages at variable rates	\$ 8,397	-
Interest rates	Prime - prime plus 1%	-
Weighted average rate	4.51%	-

Interest on mortgages payable amounted to \$14,217 (2003 - \$1,195), excluding the amortization of deferred financing costs.

NOTE 8 LOANS PAYABLE:

	2004	2003
Secured revolving operating facility	\$ 28,418	\$ —
Secured bridge loans	13,100	—
	\$ 41,518	\$ —

At December 31, 2004, Chartwell REIT has arranged for a secured revolving operating facility in the amount of \$30,000. The operating facility may be increased to \$50,000 upon provision of further security and syndication of the facility to other financial institutions by the lender.

Amounts outstanding under the secured revolving operating facility bear interest at the bank's prime rate plus 0.65% and are secured by second charges on specific facilities. The credit facility is due on December 9, 2005.

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

NOTE 9 ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	2004	2003
Accounts payable and accrued liabilities	\$ 14,977	\$ 7,367
Amounts payable for closing adjustments	—	3,858
Below-market resident contracts, net of accumulated amortization of \$1,483 (2003 - \$125)	3,492	2,728
Resident deposits	1,013	672
Deferred consideration on acquisition of property	2,000	—
	\$ 21,482	\$ 14,625

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.

NOTE 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 interests are as follows:

	2004	2003
		(Restated - note 1(n))
Opening balance	\$ 21,111	\$ —
Issuance of Class B Units of Master LP (note 2)	23,010	21,500
Non-controlling interest's share of loss for the period	(539)	(103)
Distributions on Class B Units of Master LP	(3,303)	(286)
Closing balance	\$ 40,279	\$ 21,111

NOTE 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
Trust Units issued:		
November 14, 2003, initial public offering	21,140,000	\$ 211,400
November 14, 2003, private placement	957,200	9,572
November 24, 2003, exercise of over-allotment option	3,150,000	31,500
November 28, 2003, private placement	78,300	783
Issue costs	—	(26,160)
Balance, January 1, 2004 (restated - note 1(n))	25,325,500	227,095
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	257,290	3,000
Units issued pursuant to the Distribution Reinvestment Program	80,215	937
Issue costs	—	(3,870)
Units outstanding, December 31, 2004	31,913,005	\$ 297,475

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%.

NOTE 12 LOSS PER UNIT CALCULATION:

	2004		2003	
	WEIGHTED AVERAGE UNITS	AMOUNT	WEIGHTED AVERAGE UNITS	AMOUNT
Loss for the period	27,946,587	\$ (5,447)	24,646,413	\$ (1,504)
LTIP units under subscription	843,877	—	825,000	—
	28,790,464	\$ (5,447)	25,471,413	\$ (1,504)
Loss per unit (basic and diluted)		\$ (0.195)		\$ (0.061)

NOTE 13 LONG-TERM INCENTIVE PLAN:

Certain officers and key employees of Chartwell REIT have been provided an LTIP, under which the participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest at 4% and are required to apply cash distributions received by them, in respect of units issued under LTIP, toward payments of that interest and the principal instalments. Participants may prepay any principal at their discretion. If a participant fails to pay interest and/or any principal, Chartwell REIT may elect to reacquire or sell the Trust Units in satisfaction of the outstanding amounts. Chartwell REIT has no recourse to the participants' assets. An aggregate of 1,593,000 Trust Units are reserved for issuance, pursuant to the LTIP.

During the period ended December 31, 2003, Chartwell REIT issued 825,000 Trust Units at an average price of \$10 per unit. On June 8, 2004, Chartwell REIT issued 30,000 Trust Units pursuant to the LTIP at \$11.49 per Trust Unit. On August 11, 2004, Chartwell REIT issued an additional 5,000 Trust Units pursuant to the LTIP at \$11.46 per Unit. The market value of the Trust Units at December 31, 2004 was \$14.10 per unit.

During the year ended December 31, 2004, compensation cost of \$21 (2003 - \$503), attributable to the LTIP, was charged against earnings with a corresponding amount included in unitholders' equity as units under subscription. The unit instalment loans receivable are recognized as a deduction from units under subscription. Distributions received under the LTIP are charged to unitholders' equity while interest received under LTIP is credited to distributions.

The fair value of the LTIP, on the date of issuance, was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 10.5%; expected volatility of 10%; risk-free interest rate of 4.68%; expected life of 10 years; and average expected employee tenure of eight years. The fair value also includes the estimated present value of the 2.6% imputed interest benefit and an assumed market rate of return of 6.6%.

NOTE 14 RELATED PARTY TRANSACTIONS:

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

A. During the year ended December 31, 2004, Chartwell REIT earned mezzanine loan interest of \$4,513 (2003 - \$478) 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 year ended December 31, 2004, Chartwell REIT earned management fees of \$4,584 (2003 - \$47) in respect of these services.

In addition, Chartwell REIT earned \$946 (2003 - nil) in financing fees from Spectrum during the year ended December 31, 2004.

Accounts receivable as of December 31, 2004 include \$3,127 (2003 - \$539) due from Spectrum for management fees, mezzanine loan interest and certain costs paid by Chartwell REIT on behalf of Spectrum. Subsequent to December 31, 2004, \$2,923 of this balance was repaid. In addition, accounts receivable include advances of \$125 (2003 - \$200) due from a joint venture where Spectrum holds a 72.5% interest.

Included in distributions payable at December 31, 2004 is \$170 (2003 - \$270) due to Spectrum.

B. During the year ended December 31, 2004, Chartwell REIT earned development and structuring fees of \$1,436 and interest of \$38 from one of its significant joint venture partners.

C. During the year ended December 31, 2004, in accordance with an Escrow Agreement, Chartwell REIT earned management fees in the amount of \$298 (2003 - \$234) and incurred interest expense in the amount of \$40 (2003 - \$40) from an entity controlled by an officer of Chartwell REIT.

D. Accounts receivable as of December 31, 2003 include \$358 due from a company 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.

NOTE 15 SEGMENTED INFORMATION:

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

The accounting policies of each of the segments are the same as those described for Chartwell REIT. Certain general, administration 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.

2004	RETIREMENT OPERATIONS	LONG-TERM CARE OPERATIONS	MANAGEMENT OPERATIONS	TOTAL
Revenue	\$ 86,154	\$ 36,986	\$ 9,415	\$ 132,555
Direct operating expenses	51,535	32,298	1,335	85,168
Income before the undernoted	34,619	4,688	8,080	47,387
Interest expense	14,775	2,126	—	16,901
Income before the following	19,844	2,562	8,080	30,486
Depreciation and amortization	26,038	4,956	2,192	33,186
Write-down in carrying values of management contracts and customer relationships	—	—	1,660	1,660
	\$ (6,194)	\$ (2,394)	\$ 4,228	(4,360)
Items not allocated to operating segments:				
Mezzanine loan from interest and other income				5,225
General, administrative and trust expenses				(6,851)
Non-controlling interest				539
Loss for the year				\$ (5,447)
Expenditures for assets by segment:				
Acquisitions – properties, licenses and resident contracts	\$ 290,351	\$ 73,110	\$ —	\$ 363,461
Additions to properties	1,791	2,043	—	3,834

	RETIREMENT OPERATIONS	LONG-TERM CARE OPERATIONS	MANAGEMENT OPERATIONS	OTHER	TOTAL
Total assets	\$ 604,636	\$ 64,622	\$ 16,832	\$ 54,162	\$ 740,252
Total liabilities	395,044	42,476	—	3,158	440,678

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 operations segments, respectively.

Substantially all of Chartwell REIT's assets and revenue were derived from retirement operations in 2003.

NOTE 16 JOINT VENTURE OPERATIONS:

During the year ended December 31, 2004, Chartwell REIT acquired 50% interests in two joint ventures holding eight seniors' housing facilities. The following amounts included in the consolidated financial statements are Chartwell REIT's proportionate interest in these joint ventures:

Assets	\$	55,838
Liabilities		38,715
Revenue		4,505
Expenses, including depreciation and amortization of \$1,204		5,303
Cash provided by (used in):		
Operating activities	\$	391
Financing activities		(270)
Investing activities		(125)

Chartwell REIT is contingently liable for the other venturers' portion of the liabilities of the joint ventures in which it participates, amounting to \$38,715. The assets of this joint venture are available to satisfy these liabilities.

NOTE 17 COMMITMENTS AND CONTINGENCIES:

A. Operating leases:

Chartwell REIT has assumed an obligation with respect to one land lease. The lease expires on July 17, 2061 with annual payments of \$126. In addition, Chartwell REIT has operating leases on office space which expire on various dates up to May 31, 2015. Annual payments on these leases amount to approximately \$425, commencing June 1, 2005.

B. Acquisitions:

As of December 31, 2004, Chartwell REIT is committed to acquire one seniors housing facility for a purchase price of approximately \$19,200.

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 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 December 31, 2004, Chartwell REIT has committed to provide additional mezzanine financing to Spectrum and other parties in the amount of \$18,705 (2003 - \$19,900) (note 4).

E. Letters of credit:

As of December 31, 2004, Chartwell REIT was contingently liable for letters of credit in the amount of \$195 (2003 - \$189).

F. Litigation and claims:

Chartwell REIT is involved in litigation and claims in relation to its operations that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on these financial statements.

NOTE 18 SUPPLEMENTAL CASH FLOW INFORMATION:

At December 31, 2004, distributions of \$3,158, including \$360 applicable to non-controlling interests (2003 - \$3,767, including \$286 applicable to non-controlling interests) remained payable to unitholders. These amounts have been excluded from operating and financing activities in the consolidated statements of cash flows.

The acquisition of net assets (note 2) was partially financed through the issuance of \$3,000 (2003 - \$8,255) of Trust Units, \$23,010 (2003 - \$21,500) of Class B Units of Master LP and the issuance of a \$1,358 vendor take-back mortgage. These amounts have been excluded from financing and investing activities in the consolidated statements of cash flows.

Deferred purchase consideration on acquisition of properties of \$2,000 that remains payable as of December 31, 2004 was excluded from operating and investing activities for the year ended December 31, 2004.

During the year ended December 31, 2004, distributions of \$902 (2003 - nil) and interest of \$312 (2003 - \$41) 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 year ended December 31, 2004, Trust Units valued at \$937 (2003 - nil) were issued pursuant to the DRIP. This amount has been excluded from financing activities on the consolidated statements of cash flows.

Concurrent with the Offering, an option note payable was settled for cash and the issuance of \$2,100 of Trust Units. This amount has been excluded from financing and investing activities in the consolidated statements of cash flows for the period ended December 31, 2003.

At December 31, 2003, an amount owing to the vendor for the acquisition of Alert for \$3,858 (note 2) has been excluded from operating and investing activities in the consolidated statements of cash flows.

NOTE 19 TAXES:

The carrying value of Chartwell REIT's assets at December 31, 2004 exceeds its tax basis by approximately \$140,000 (2003 - \$104,000). Due to the terms of the Declaration of Trust, no recognition of a future tax liability has been recorded in the financial statements.

NOTE 20 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 December 31, 2004, \$49,915 (2003 - nil) 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 five to 15 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell REIT spreads the maturities of its fixed rate long-term debt over time.

To reduce the interest rate cash flow risk on 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 December 31, 2004 is a negative value of \$1,073.

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 composed of various provincial governments. Collection risk associated with these customers relates to their ability to potentially challenge certain charges.

C. Fair value:

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

The fair values of mortgages payable as at December 31, 2004 were \$379,142 as compared to their carrying values of \$374,520.

As of December 31, 2004, the fair value of capital funding receivable approximates its carrying value.

NOTE 21 IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS:

In June 2003, The Canadian Institute of Chartered Accountants issued 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 is effective for all annual and interim periods, beginning on or after November 1, 2004.

At this time, Chartwell REIT is reviewing its current and future interests, particularly its joint venture, mezzanine financing and option agreements in determining the applicability of this guideline and its impact on the consolidated financial statements.

NOTE 22 COMPARATIVE FIGURES:

Certain 2003 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2004.

TRUSTEES AND OFFICERS

BOARD OF TRUSTEES

Michael D. Harris, Trustee, Chair [†]
Corporate Director
Senior Business Advisor, Goodmans LLP

Victor Durman, Trustee * [‡]
President, Wardman Financial Corporation
(A Vancouver real estate investment company)

Charles Moses C.A., Trustee *
Private consultant and Chairman
Canadian Depository for Securities Ltd.
(Canada's depository for investment securities)

Sidney P.H. Robinson, Trustee [†]
Corporate director and Consultant
(former Senior Partner of Torys LLP, a major Canadian legal firm)

Thomas Schwartz C.A., Trustee ^{†‡}
President and CEO, Canadian Apartment Properties REIT (A real estate investment trust focused on the apartment residential sector)

Joseph Wright, Trustee * [‡]
Corporate Director

Stephen A. Suske, MBA, Trustee
Vice Chair, President

Robert Ezer, C.A., Trustee
Chief Executive Officer

W. Brent Binions, LL.B, Trustee
Executive Vice President

- * Audit Committee
- [†] Compensation, Governance and Nominating Committee
- [‡] Investment and Environmental Committee

OFFICERS AND SENIOR MANAGEMENT

Stephen A. Suske MBA
Vice Chair, President

Robert Ezer C.A.
Chief Executive Officer

W. Brent Binions LL.B
Executive Vice President

Leslie Veiner C.A.
Chief Financial Officer

Richard Noonan
Chief Operating Officer

UNITHOLDER INFORMATION

Chartwell Seniors Housing Real Estate Investment Trust
100 Milverton Drive
Suite 700
Mississauga, Ontario
L5R 4H1
Telephone: (905) 501-9219
Toll free: (888) 584-2386
Facsimile: (905) 501-9107
Website: www.chartwellreit.ca

AUDITORS
KPMG LLP
Toronto, Ontario

LEGAL COUNSEL
Borden Ladner Gervais LLP
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR
Computershare Investor Services Inc.
Toronto, Ontario
Telephone: (800) 564-6253
Facsimile: (866) 249-7775
Email: service@computershare.com

STOCK EXCHANGE LISTING
Toronto Stock Exchange (Symbol: CSH.UN)

UNITHOLDER AND INVESTOR CONTACT
Mr. Stephen Suske
Vice Chair and President
Website: www.chartwellreit.ca

ANNUAL MEETING OF UNITHOLDERS
4:30 pm ET
Wednesday May 25, 2005
The St. Andrews Club
150 King Street West
27th Floor
Toronto, Ontario

DISTRIBUTION REINVESTMENT PLAN

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

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

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

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



HEAD OFFICE
100 Milverton Drive
Suite 700
Mississauga, Ontario
L5R 4H1

TELEPHONE: 905-501-9219
TOLL FREE: 888-584-2386
FACSIMILE: 905-501-9107
www.chartwellreit.ca