Consolidated Financial Statements
(In Canadian dollars)

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2011 and 2010

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# INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Chartwell Seniors Housing Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income (loss), unitholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chartwell Seniors Housing Real Estate Investment Trust as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 1, 2012
Toronto, Canada

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

| | Note | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | $ 10,687 | $ 14,728 | $ 106,943 |
| Trade and other receivables | 7 | 13,144 | 14,595 | 20,783 |
| Mezzanine loans receivable | 6 | 9,653 | 14,768 | 28,589 |
| Capital funding receivable | 8 | 3,743 | 3,537 | 2,293 |
| Other assets | 9 | 27,153 | 21,037 | 24,524 |
| Total current assets | | 64,380 | 68,665 | 183,132 |
| Non-current assets: | | | | |
| Other assets | 9 | 7,344 | 7,421 | 6,059 |
| Mezzanine loans receivable | 6 | – | 6,035 | 26,734 |
| Capital funding receivable | 8 | 55,377 | 59,059 | 41,531 |
| Intangible assets | 5 | 52,879 | 52,740 | 37,684 |
| Property, plant and equipment ("PP&E") | 4 | 2,526,541 | 2,485,176 | 2,361,849 |
| Total non-current assets | | 2,642,141 | 2,610,431 | 2,473,857 |
| Total assets | | $ 2,706,521 | $ 2,679,096 | $ 2,656,989 |
| **Liabilities and Unitholders' Equity** | | | | |
| Current liabilities: | | | | |
| Secured revolving operating credit facility ("Credit Facility") | 10(b) | $ 53,000 | $ 51,000 | $ – |
| Accounts payable and other liabilities | 12 | 111,688 | 93,577 | 84,704 |
| Employee benefits | | 809 | – | – |
| Distributions payable | | 6,596 | 6,505 | 5,857 |
| Mortgages payable | 10(a) | 205,373 | 116,864 | 127,979 |
| Convertible debentures | 11 | 76,425 | – | – |
| Deferred consideration on business combinations | 13 | 5,328 | 2,704 | 3,710 |
| Total current liabilities | | 459,219 | 270,650 | 222,250 |
| Non-current liabilities: | | | | |
| Mortgages payable | 10(a) | 1,670,893 | 1,612,975 | 1,497,302 |
| Employee benefits | | – | 810 | 881 |
| Deferred consideration on business combinations | 13 | – | 4,808 | 9,882 |
| Convertible debentures | 11 | – | 76,876 | 204,923 |
| Class B Units of Chartwell Master Care LP ("Class B Units") | 14 | 14,292 | 14,027 | 13,897 |
| Deferred tax liabilities | | 26,325 | 40,451 | 45,920 |
| Total non-current liabilities | | 1,711,510 | 1,749,947 | 1,772,805 |
| Total liabilities | | 2,170,729 | 2,020,597 | 1,995,055 |
| Unitholders' equity | 15 | 535,792 | 658,499 | 661,934 |
| Commitments and contingencies | 26 | | | |
| Subsequent events | 29 | | | |
| Total liabilities and unitholders' equity | | $ 2,706,521 | $ 2,679,096 | $ 2,656,989 |

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Charles Moses" Trustee    "Sidney Robinson" Trustee

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Comprehensive Income (Loss)
(In thousands of Canadian dollars)

Years ended December 31, 2011 and 2010

| | Note | 2011 | 2010 |
|---|---|---|---|
| Revenue: | | | |
| Resident | | $ 750,634 | $ 707,166 |
| Management and other fees | | 3,137 | 4,675 |
| Mezzanine loan interest | | 1,601 | 5,419 |
| | | 755,372 | 717,260 |
| Expenses: | | | |
| Direct operating | | 532,132 | 496,525 |
| General, administrative and trust | | 24,758 | 24,761 |
| | | 556,890 | 521,286 |
| Income before finance costs, property lease expense, other income, depreciation of PP&E, amortization of intangible assets and changes in fair values of financial instruments and unrealized foreign exchange losses (gains) | | 198,482 | 195,974 |
| Finance costs | 23 | 103,331 | 108,985 |
| Property lease expense | | 2,420 | 2,327 |
| Other income | 22 | (608) | (14,461) |
| Depreciation of PP&E | 4 | 170,844 | 160,775 |
| Amortization of intangible assets | 5 | 2,555 | 2,344 |
| Changes in fair values of financial instruments and unrealized foreign exchange losses (gains) | 24 | (2,932) | 4,346 |
| Loss before income taxes | | (77,128) | (68,342) |
| Income tax expense (benefit): | 25 | | |
| Current | | 330 | 281 |
| Deferred | | (14,127) | (6,675) |
| | | (13,797) | (6,394) |
| Loss for the year | | (63,331) | (61,948) |
| Other comprehensive income (loss): | | | |
| Unrealized foreign currency gain (loss) on translation of foreign operations | | 1,184 | (5,156) |
| Total comprehensive income (loss) | | $ (62,147) | $ (67,104) |

See accompanying notes to consolidated financial statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2011 and 2010

| Year ended December 31, 2011 | Trust Units issued in dollars, net | Trust Units issued under LTIP | LTIP receivable | Accumulated losses | Foreign currency translation reserve | Distributions | Other equity components | Total |
|---|---|---|---|---|---|---|---|---|
| Unitholders' equity, January 1, 2011 | $ 1,439,961 | $ 26,417 | $ (21,033) | $ (334,469) | $ (5,156) | $ (451,638) | $ 4,417 | $ 658,499 |
| Loss for the year | – | – | – | (63,331) | – | – | – | (63,331) |
| Other comprehensive income | – | – | – | – | 1,184 | – | – | 1,184 |
| Distributions to Unitholders | – | – | – | – | – | (77,538) | – | (77,538) |
| Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP") | 15,075 | – | – | – | – | – | – | 15,075 |
| Trust Units issued on exchange of Class B Units | 272 | – | – | – | – | – | – | 272 |
| Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury | 930 | (941) | 146 | – | – | – | 474 | 609 |
| Interest on LTIP receivable | – | – | (208) | – | – | – | – | (208) |
| Distributions applied against LTIP receivable | – | – | 1,230 | – | – | – | – | 1,230 |
| Unitholders' equity, December 31, 2011 | $ 1,456,238 | $ 25,476 | $ (19,865) | $ (397,800) | $ (3,972) | $ (529,176) | $ 4,891 | $ 535,792 |

During the year ended December 31, 2011, distributions were declared and paid at $0.045 per unit per month. In the first two months of 2012, distributions were declared at $0.045 per unit per month totalling $13,046.

| Year ended December 31, 2010 | Trust Units issued in dollars, net | Trust Units issued under LTIP | LTIP receivable | Accumulated losses | Foreign currency translation reserve | Distributions | Other equity components | Total |
|---|---|---|---|---|---|---|---|---|
| Unitholders' equity, January 1, 2010 | $ 1,307,016 | $ 28,728 | $ (23,460) | $ (272,521) | $ – | $ (380,494) | $ 2,665 | $ 661,934 |
| Loss for the year | – | – | – | (61,948) | – | – | – | (61,948) |
| Other comprehensive loss | – | – | – | – | (5,156) | – | – | (5,156) |
| Distributions to Unitholders | – | – | – | – | – | (71,144) | – | (71,144) |
| Issuance of Trust Units pursuant to public offering | 124,217 | – | – | – | – | -- | 1,592 | 125,809 |
| Issuance of Trust Units under the DRIP | 4,795 | – | – | – | – | – | – | 4,795 |
| Trust Units issued on exchange of Class B Units | 2,239 | – | – | – | – | – | – | 2,239 |
| Trust Units issued under the LTIP, net of units transferred to Treasury | 1,694 | (2,311) | 1,373 | – | – | – | 160 | 916 |
| Interest on LTIP receivable | – | – | (181) | – | – | – | – | (181) |
| Distributions applied against LTIP receivable | – | – | 1,235 | – | – | – | – | 1,235 |
| Unitholders' equity, December 31, 2010 | $ 1,439,961 | $ 26,417 | $ (21,033) | $ (334,469) | $ (5,156) | $ (451,638) | $ 4,417 | $ 658,499 |

During the year ended December 31, 2010, distributions were declared and paid at $0.045 per unit per month.

See accompanying notes to consolidated financial statements.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss for the year | $ (63,331) | $ (61,948) |
| Items not affecting cash: | | |
| Depreciation and amortization | 173,399 | 163,119 |
| Interest expense | 101,597 | 106,272 |
| Interest capitalized to properties under development | (1,303) | (522) |
| Interest income on loans and other receivables | (3,817) | (4,540) |
| Mezzanine loan interest | (1,601) | (5,419) |
| Gain recorded on remeasurement of previously held equity interest on acquisition | (3,595) | (9,639) |
| Loss (gain) on disposal of assets | (7,556) | 851 |
| Impairment on PP&E | 13,080 | – |
| Bargain purchase on acquisition | – | (4,428) |
| Non-cash compensation expense | 1,993 | 1,193 |
| Changes in fair values of financial instruments and unrealized foreign exchange losses (gains) | (2,932) | 4,346 |
| Amortization of finance costs and fair value adjustments on mortgages payable | 3,037 | 3,235 |
| Current income taxes | 330 | 281 |
| Deferred income taxes | (14,127) | (6,675) |
| Change in trade and other receivables | 3,897 | 3,752 |
| Change in other assets | (3,977) | 1,889 |
| Change in accounts payable and other liabilities | 12,266 | (3,630) |
| | 207,360 | 188,137 |
| Interest received | 5,418 | 9,110 |
| Interest paid | (101,450) | (108,105) |
| Income taxes paid | (330) | (281) |
| Net cash provided by operating activities | 110,998 | 88,861 |
| Financing activities: | | |
| Proceeds from mortgage financing | 67,713 | 16,380 |
| Proceeds from Credit Facility | 2,000 | 51,000 |
| Mortgage principal repayments | (40,731) | (110,091) |
| Net additions to finance costs | (2,809) | (3,345) |
| Trust Units issued pursuant to: | | |
| Public offerings | – | 130,174 |
| Issue costs | – | (5,957) |
| Redemption of convertible debentures | – | (124,925) |
| Distributions paid | (61,357) | (64,636) |
| Deposits and repayments received under LTIP | 478 | 968 |
| Net cash used in financing activities | (34,706) | (110,432) |

**CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**
Consolidated Statements of Cash Flows (continued)
(In thousands of Canadian dollars)

Years ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Investing activities: | | |
| Acquisition of assets under business combinations | (40,028) | (49,783) |
| Acquisition of land for development | (1,875) | – |
| Additions to PP&E | (71,373) | (40,703) |
| Proceeds from disposal of PP&E | 21,718 | 6,488 |
| Payment of deferred consideration on business combinations | (2,500) | (5,583) |
| Amounts received under income guarantees | – | 133 |
| Mezzanine loan collections | 8,187 | 14,440 |
| Change in restricted cash | 1,783 | 1,726 |
| Proceeds from capital funding receivable | 3,537 | 3,013 |
| Net cash used in investing activities | (80,551) | (70,269) |
| Decrease in cash and cash equivalents | (4,259) | (91,840) |
| Foreign exchange gain (loss) on U.S. dollar-denominated cash | 218 | (375) |
| Cash and cash equivalents, beginning of year | 14,728 | 106,943 |
| Cash and cash equivalents, end of year | $ 10,687 | $ 14,728 |

See accompanying notes to consolidated financial statements

Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") is an open ended, unincorporated investment trust whose registered head office is located in Mississauga, Ontario and is governed by the laws of the Province of Ontario, Canada and was created pursuant to the Declaration of Trust dated July 7, 2003, as amended ("Declaration of Trust"), when one Trust Unit was issued for cash. Chartwell began operations on November 14, 2003. Chartwell's main business is ownership, operations and management of retirement and long-term care communities in Canada and the United States.

Chartwell owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, Canada, which in turn owns 100% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba, Canada. Class B Units of Master LP are held by non-controlling investors.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of the Trust. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third-party lenders, including mortgages.

The United States assets of Chartwell are also owned indirectly by Master LP, through its wholly owned United States subsidiary corporation, CSH Master Care USA Inc.

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

## 1. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements represent the first annual financial statements of the Trust prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Trust adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), as discussed in note 30.

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2011. On March 1, 2012, the Board of Trustees authorized the financial statements for issue.

**1. Basis of preparation (continued):**

In preparing these consolidated financial statements, management has amended certain accounting, valuation and consolidation methods previously applied in the financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") to comply with IFRS. The comparative figures for 2010 were restated to reflect these amendments. Note 30 contains reconciliations and descriptions of the effect of the transition from CGAAP to IFRS on equity and total comprehensive loss along with line-by-line reconciliations of the consolidated statements of comprehensive income (loss) and consolidated balance sheet for the year ended December 31, 2010.

(b) Functional currency:

These consolidated financial statements are presented in thousands of Canadian dollars, the Trust's functional currency, unless otherwise indicated.

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

(i) derivative financial instruments are measured at fair value;

(ii) financial instruments classified as fair value through profit and loss ("FVTPL") are measured at fair value;

(iii) financial instruments classified as available-for-sale are measured at fair value; and

(iv) liabilities for cash-settled, unit-based payment arrangements are measured at fair value.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses during the year. Actual results may differ from those estimates.

**1. Basis of preparation (continued):**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within future financial year are included in the following notes:

(i) Note 2(c) - PP&E;

(ii) Note 2(m)(iii) - Revenue recognition - allowance for doubtful accounts;

(iii) Note 3 - Acquisitions;

(iv) Note 12(c) - LTIP; and

(v) Note 30(d)(i) - Fair value as deemed cost.

In the process of applying the accounting policies, Chartwell makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognizes in the financial statements. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

(i) Note 2(d)(i) - Intangible assets - licenses;

(ii) Note 2(e) - Impairment; and

(iii) Note 25 - Income taxes.

**2. Significant accounting policies:**

(a) Basis of consolidation:

(i) Transactions eliminated on consolidation:

The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated on consolidation.

(ii) Jointly controlled entities:

Joint ventures are those entities over which activities Chartwell has joint control, established by contractual agreement.

These consolidated financial statements include Chartwell's proportionate share of each of the assets, liabilities, income and expenses of the jointly controlled entities on a line-by-line basis.

(iii) Business combinations:

As part of the transition to IFRS, Chartwell elected not to restate business combinations that occurred prior to January 1, 2010.

All acquisitions occurring on and after January 1, 2010 are accounted for under the acquisition method under which all identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill represents the cost of acquired net assets in excess of their fair value. If the fair value of the net identifiable assets acquired exceeds the fair value of consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, (finder's fees, legal fees, due diligence fees, and other professional and consulting fees) incurred in connection with the acquisition are expensed as incurred.

If a business combination is achieved in stages, the fair value on the acquisition date of the Trust's previously held equity interest in the acquiree is remeasured to fair value through profit or loss.

**2. Significant accounting policies (continued):**

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Chartwell's United States Operations at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates in effect as at the consolidated balance sheet dates.

Revenue and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the dates on which such items are reported in income during the year.

Exchange gains and losses arising from translation of the financial statements of Chartwell's foreign operations are deferred and included in other comprehensive income (loss).

**2. Significant accounting policies (continued):**

(c) PP&E:

Chartwell considers its properties to be owner-occupied properties under International Accounting Standards ("IAS") 16, Property, Plant and Equipment.

PP&E includes land, buildings, furniture, fixtures and equipment, which are measured at cost less accumulated depreciation and accumulated impairment losses. The Trust elected to apply the optional exemption to use fair values as deemed cost at January 1, 2010, the date of transition to IFRS.

Properties under development and land held for development are carried at cost and are not subject to depreciation. Cost includes initial acquisition costs, other direct costs, realty taxes and interest related to their financing during the development period. The development period ends when the asset is available for use and construction is complete. Upon completion, properties under development are transferred to the appropriate asset class.

Significant parts of the buildings have different useful lives and are accounted for as separate components of the property. The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to the Trust, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of ongoing repairs and maintenance of the properties are recognized in profit and loss as incurred.

Depreciation is recorded in profit or loss on the straight-line basis over the estimated useful lives of the assets. The following are the estimated useful lives of existing PP&E:

| | |
|---|---|
| Building components: | |
| Structure | 36 - 40 years |
| Mechanical, electrical and elevators | 10 - 20 years |
| Roof, windows and doors | 5 - 15 years |
| Interior upgrades | 3 - 5 years |
| Resident contracts and above- and below-market leases | 1 - 3 years |
| Payment in lieu of taxes ("PILOT") | Term of agreement |
| Furniture, fixtures and equipment | 3 - 5 years |

**2. Significant accounting policies (continued):**

Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains/losses on disposition of PP&E are recognized in profit or loss when the Trust has transferred to the purchaser the significant risk and rewards of ownership of the PP&E and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

(i) Resident contracts:

The value associated with in-place resident contracts, which 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, is amortized over the expected term of the resident occupancy. Resident contracts are recorded as a component of buildings.

(ii) Above- and below-market leases:

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 decrease, in the case of above-market resident contracts, to depreciation over the expected term of the associated resident occupancy, estimated at an average of three years for retirement properties and one year for long-term care ("LTC") properties.

Above- and below-market leases are recorded as a component of buildings.

(iii) PILOT:

PILOT consists of arrangements with municipal governments in the United States, which require the participant to incur certain expenses in lieu of municipal property taxes. They are amortized over the life of the specific agreements. PILOT is recorded as a component of buildings.

**2. Significant accounting policies (continued):**

(d) Intangible assets:

Intangible assets include licenses, management contracts and other intangibles, which are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of licenses with an indefinite life, which are measured at cost less accumulated impairment losses and are not amortized.

(i) Licenses:

Licenses for the operation of LTC properties are considered to have indefinite lives. The licences are recorded at cost and are not amortized. Given the current demographic of the Canadian markets, as well as the fact that the demand for licensed beds is expected to increase beyond its current supply, management has determined that the licenses have an indefinite life.

(ii) Management contracts:

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of senior residences and long-term care properties owned by third parties. Management contracts are amortized on a straight-line basis over the term of the contract or if no term is specified, over its estimated life not to exceed five years.

(iii) Other intangible assets:

Other intangible assets consist of the allocated cost of acquired operating leases of senior housing properties, software costs and below-market management contracts.

The allocated cost of the operating leases is amortized on a straight-line basis over the initial lease term of the underlying operating leases.

Software costs, which include externally purchased software licenses, are amortized over one to three years on a straight-line basis.

**2. Significant accounting policies (continued):**

Below-market management contracts represent the value of contractual agreements with third parties to provide management services for the operations of senior residences owned by Chartwell. Below-market management contracts are amortized over the period in which the benefit will be realized.

(e) Impairment:

(i) Financial assets, excluding trade receivables:

Financial assets carried at amortized cost are assessed at each reporting date to determine whether there is objective evidence indicating the assets might be impaired. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due to the Trust on terms that the Trust would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

The Trust considers evidence of impairment for receivables at both a specific asset and collective level. All receivables are assessed for specific impairment. All receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance against the associated account receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**2. Significant accounting policies (continued):**

(ii) Non-financial assets, excluding inventories and deferred tax assets:

The carrying amounts of the Trust's PP&E are assessed at each reporting date to determine if any events have incurred that would indicate the PP&E may be impaired. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash generating unit ("CGU") is the higher of (a) fair value less costs to sell and (b) value in use.

Intangible assets that have indefinite useful lives are tested for impairment annually, or more frequently, if events or circumstances indicate that the assets might be impaired.

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances, assessed at each reporting date, indicate the carrying amount may not be recoverable.

Chartwell's corporate assets do not generate separated cash flows. If there is an indication that a corporate asset, intangible asset that has an indefinite useful life, or intangible asset with a finite useful life may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed (excluding for goodwill) if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Capital funding:

Capital funding are grants received from the Government of Ontario for the construction costs of long-term care properties. These grants are financial instruments that are initially recorded at fair value on acquisition and carried at amortized cost. The interest accretion on the grants is recognized in profit or loss as other income over the life of the grant.

**2. Significant accounting policies (continued):**

(g) Non-current assets held-for-sale:

Non-current assets, or disposal groups comprising assets and liabilities are categorized as held-for-sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to dispose of the assets of the disposal group; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Immediately before classification as held-for-sale, the assets, or components of the disposal group, are remeasured in accordance with the Trust's accounting policies, at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

(h) Financial instruments:

(i) Non-derivative financial assets:

Trade and other receivable, capital funding receivable and mezzanine loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Trust is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when Chartwell has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**2. Significant accounting policies (continued):**

Non-derivative financial assets are presented as current assets on the consolidated balance sheets, except for those with maturities greater than 12-months after the balance sheet date, which are classified as non-current assets.

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities primarily consist of accounts payables, distributions payable, mortgages payable, deferred consideration on business combinations and revolving Credit Facility. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

A financial liability is derecognized when the Trust's contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred and are subsequently remeasured to their fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss immediately.

Chartwell entered into an interest rate swap arrangement in order to reduce the impact of fluctuating interest rates on long-term debt. This swap agreement requires periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swap arrangements. This swap arrangement is not designated as a hedging instrument under IFRS.

**2. Significant accounting policies (continued):**

(iv) Financial liabilities measured at fair value:

Financial liabilities are measured at fair value when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"), permits the entire combined contract, asset or liability, to be designated as FVTPL.

The convertible debentures and Class B Units are designated as FVTPL. Any gains or losses arising on remeasurement are recognized in profit or loss. Distributions paid to Class B Unitholders are recognized as interest expense under finance costs in profit or loss.

(i) Cash and cash equivalents:

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

(j) Employee benefits:

(i) Short-term benefits:

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as the Trust has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefits are recorded in accounts payable and other liabilities.

**2. Significant accounting policies (continued):**

Employee health benefits:

Chartwell self-insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self-insured liabilities include estimates of costs of both reported claims and claims incurred but not reported and are based on estimates of loss based on assumptions made by management, including consideration of projections provided by the independent third party administrator of the plan.

(ii) Long-term employee benefits:

Chartwell accrues its obligations related to accumulated sick pay and post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected unit credit method using management assumptions. Any net actuarial gain (loss) is recognized in profit or loss.

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis. A defined contribution plan is a post-employment benefit plan, whereby Chartwell contributes fixed amounts into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(iii) Unit-based payment plans:

Chartwell maintains LTIPs, Deferred Trust Units Plans, and Restricted Unit Plans for its employees, directors and trustees. These plans are considered cash-settled and the fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

**2. Significant accounting policies (continued):**

(k) Income taxes:

Income tax expense (benefit) comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

The Trust is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada) and became subject to SIFT tax commencing in fiscal 2007. Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

The Trust uses the asset and liability method of accounting for income taxes. Under this method, deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

**2. Significant accounting policies (continued):**

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Finance costs:

Finance costs comprise interest expense on borrowings, distributions classified as interest expense under IFRS on Class B Units and mark-to-market adjustments on mortgages payable.

(m) Revenue recognition:

The Trust derives most of its revenue from rental income, care services to residents and management services.

(i) Retirement community resident revenue:

Revenue in respect of accommodation and care services fees provided to residents of retirement communities is recognized when services, both rental and care are provided. In certain jurisdictions, residents of retirement communities are eligible for government subsidies and the rates of these subsidies are regulated. In Canada, in some jurisdictions, rent control regulations affect the rates that can be charged for rental accommodation.

(ii) Long-term care community resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long-term care communities is recognized when the rental or ancillary services are provided.

**2. Significant accounting policies (continued):**

In Canada, the provinces or regional health authorities (collectively, the "funding agency") regulate the amounts charged to residents of long-term care communities, a substantial portion of which are funded by provincial or regional programs. Such resident revenue earned is exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when the Trust has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditure or levels of labour hours. Revenue is recognized when these criteria are achieved.

In certain cases, the funding agency provides additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when the Trust has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

(iii) Allowance for doubtful accounts:

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of residents to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the residents.

(iv) Fee revenue:

(a) The Trust provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services and is recognized in the month in which services are performed in accordance with the terms of the management contract.

(b) Fee revenue integral to Chartwell's lending activities is recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

**2. Significant accounting policies (continued):**

(c) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash received.

(n) Segment reporting:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care and United States Operations separately.

Segment results that are reported to the senior executive committee include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general, administrative and trust expenses, fair value adjustments to financial instruments and deferred income taxes. The accounting policies applied by the segments are the same as those applied by the Trust.

(o) Lease payments:

Chartwell maintains some properties in the United States that are classified as operating leases. These leased assets are not recognized in the Trust's consolidated balance sheets, but payments made are recognized in profit or loss on a straight-line basis over the term of the lease.

(p) IFRS pronouncements:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

In November 2009, the IASB issued IFRS 9. IFRS 9 replaces the guidance in IAS 39 and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

**2. Significant accounting policies (continued):**

(ii) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

In May 2011, the IASB issued IFRS 10. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

(iii) IFRS 11, Joint Arrangements ("IFRS 11"):

In May 2011, the IASB issued IFRS 11. IFRS 11, which replaces the guidance in IAS 31, Interests in Joint Ventures, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring interests in jointly controlled entities to be accounted for under the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

(iv) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

In May 2011, the IASB issued IFRS 12. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 12 has not yet been determined.

**2. Significant accounting policies (continued):**

(v) IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB published IFRS 13. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. This new standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

(vi) Amendments to IFRS 7, Disclosures - Transfers of Financial Assets ("IFRS 7"):

In October 2010, the IASB issued IFRS 7. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity's continuing involvement in derecognized financial assets. This amendment is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2012. The extent of the impact of adoption of IFRS 7 has not yet been determined.

(vii) Amendments to IAS 12, Deferred Tax: Recovery of Underlying Assets ("IAS 12"):

In December 2010, the IASB amended IAS 12. IAS 12 will now introduce an exception to the measurement principles for deferred tax assets and liabilities related to the depreciable component of investment properties that are measured at fair value under IAS 40, Investment Property, and to the depreciable component of investment properties acquired in a business combination that will subsequently be measured using the fair value model. This amendment is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2012. The Trust does not expect the amendments to IAS 12 to have a material impact on the financial statements.

**2. Significant accounting policies (continued):**

(viii) Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has not been classified as held for sale to be measured using the equity method, until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

(ix) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"):

In June 2011, the IASB amended IAS 1. This amendment requires that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amended standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

(x) Amendments to IAS 19, Employee Benefits ("IAS 19"):

In June 2011, the IASB amended IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in OCI. It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. This amended standard is effective for the Trust's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

**2. Significant accounting policies (continued):**

(xi) Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7:

In December 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The IASB also amended IFRS 7 to include new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheets or subject to master netting arrangements or similar arrangements.

The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014 and the amendments to IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments has not yet been determined.

**3. Acquisitions:**

(a) Joint ventures:

On April 1, 2011, Chartwell acquired a 33.3% interest in Chartwell Classic Robert Speck Seniors Housing ("Robert Speck") from Spectrum. The purchase price before closing costs was $11,140 and was settled through the assumption of debt of $7,605, settlement of outstanding mezzanine loan of $1,050, settlement of outstanding accounts receivable of $807, with the remaining balance, net of working capital adjustments, settled in cash. Chartwell has accounted for this using the proportionate consolidation method with additional disclosures relating to this transaction found in note 3(b)(i).

## 3. Acquisitions (continued):

(b) Business combinations:

On May 10, 2011, Chartwell acquired a 50% interest in Chatsworth Retirement Suites and Bungalows ("Chatsworth") from its joint venture partner. The purchase price before closing costs was $10,363 and was settled through the assumption of debt of $5,793, settlement of outstanding mezzanine loan of $1,063, settlement of $280 in other amounts due to Chartwell from the vendor, with the remaining balance net of working capital adjustments settled in cash. Upon completion of this transaction, Chartwell owns 100% interest in the property. Additional disclosures relating to this transaction are found in note 3(b)(ii) and 3(b)(iv).

On November 1, 2011, Chartwell acquired from ING Real Estate Community Living Group ("ING") the remaining 50% interest in 15 properties in the United States ("ING Portfolio"), which were jointly owned with Chartwell. The purchase price before closing costs was $172,346 (U.S. $169,000) and was settled through the assumption of debt of $137,846 (U.S. $135,170), not including mark-to-market adjustments, with the remaining balance, net of working capital adjustments settled in cash. Additional disclosures relating to this transaction are found in note 3(b)(iii) and 3(b)(iv).

The above transactions are in line with Chartwell's strategy to increase its ownership in existing properties it operates. Chartwell has accounted for these business combinations using the acquisition method.

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

## 3. Acquisitions (continued):

The following table summarizes the allocation of the purchase to each major category of assets acquired and liabilities assumed at the date of acquisition:

| Date of acquisition | April 1, 2011 (i) | May 10, 2011 (ii) | November 1, 2011 (iii) | |
|---|---|---|---|---|
| Segment | Canadian Retirement Operations | | United States Operations | |
| Location | Province of Ontario (113 suites) | Province of British Columbia (103 suites) | Various states (2,948 suites) | Total |
| PP&E | $ 11,137 | $ 12,453 | $ 175,884 | $ 199,474 |
| Other assets (liabilities) | (222) | – | 729 | 507 |
| Mortgages assumed | (7,605) | (5,793) | (139,760) | (153,158) |
| Net assets acquired | $ 3,310 | $ 6,660 | $ 36,853 | $ 46,823 |
| Discharge of mezzanine loan receivable | $ 1,050 | $ 1,063 | $ – | $ 2,113 |
| Settlement of accounts receivable | 807 | 280 | – | 1,087 |
| Cash consideration | 1,453 | 3,227 | 35,348 | 40,028 |
| Gain recorded on remeasurement of previously held equity interest on acquisition | – | 2,090 | 1,505 | 3,595 |
| Total consideration | $ 3,310 | $ 6,660 | $ 36,853 | $ 46,823 |

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

**3. Acquisitions (continued):**

(i) The Trust incurred acquisition-related costs of $237 relating to external legal fees and due diligence costs. These costs have been recognized in other expense (income) in profit or loss.

Included in the consolidated financial statements are the following amounts relating to Chartwell's 33.3% interest in the Robert Speck joint venture at December 31, 2011:

Balance sheet:

| | | |
|---|---|---|
| Current assets | $ | 116 |
| Non-current assets | | 10,892 |
| | $ | 11,008 |
| Current liabilities | $ | 125 |
| Non-current liabilities | | 7,594 |
| | $ | 7,719 |

Statement of comprehensive loss:

| | | |
|---|---|---|
| Revenue | $ | 573 |
| Expenses | | 1,143 |
| Loss before income taxes | $ | (570) |

(ii) As the Chatsworth acquisition was completed in steps, under IFRS, Chartwell is required to remeasure its original 50% interest to fair value. This remeasurement has resulted in an increase in value of $2,090, which has been recognized as a gain in other expense (income) in profit or loss. The net book value of the original 50% interest prior to this acquisition was $8,010.

The Trust incurred acquisition-related costs of $282 relating to external legal fees and due diligence costs. These costs have been expensed in other expense (income) in profit or loss.

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

**3. Acquisitions (continued):**

(iii) The remeasurement to fair value of the initial 50% interest in the 15 properties, resulted in a gain of $1,505 (U.S. $1,476), recognized in other expense (income) in profit or loss. The net book value, net of impairment provision of $8,500, on the original 50% interest as at November 1, 2011 was $170,841.

Acquisition-related costs of $312 relating to external legal fees and due diligence requirements have been incurred and are recognized in other expense (income) in profit or loss.

(iv) Chatsworth and the ING Portfolio have contributed revenue of $16,400 and net loss of $2,093 since their respective acquisition dates. If these acquisitions had occurred on January 1, 2011, the consolidated revenue for the Trust would have been $790,370 and the consolidated net loss for the year would have been $71,640.

(c) Acquisitions during the year ended December 31, 2010:

The following are the acquisitions that occurred during the year ended December 31, 2010:

| Property | Ownership interest | Date acquired |
|---|---|---|
| The Québec Portfolio[1] | 100% | March 9, 2010 |
| The Meridian Portfolio | 50% | May 14, 2010 |
| The Regency Portfolio | 50% | June 1, 2010 |
| Valley Vista Retirement Residence | 50% | June 1, 2010 |
| Chartwell Classic Oakville | 50% | September 1, 2010 |
| Chartwell Select Muskoka Traditions | 100% | December 1, 2010 |

[1] The Québec Portfolio represents Chartwell's acquisition, through foreclosure proceedings, of three retirement properties and one parcel of vacant land from Melior.

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

## 3. Acquisitions (continued):

The table below summarizes the acquisitions and the resulting changes from CGAAP to IFRS. Under CGAAP, the purchase price (including costs of acquisition) is allocated to each major class of assets acquired and liabilities assumed. Under IFRS, the fair value of the consideration transferred is allocated.

| | CGAAP | IFRS adjustment | IFRS |
|---|---|---|---|
| PP&E | $ 290,814 | $ 28,141 | $ 318,955 |
| Intangible assets | 22,965 | (22,965) | – |
| Capital funding receivable | 23,054 | (1,268) | 21,786 |
| Licenses | 12,931 | 5,753 | 18,684 |
| Deferred income tax liability | (2,274) | (911) | (3,185) |
| Mortgages assumed | (261,051) | 2,645 | (258,406) |
| Other liabilities | (6,694) | (2,651) | (9,345) |
| Net assets acquired | $ 79,745 | $ 8,744 | $ 88,489 |
| Discharge of mezzanine loans receivable | $ 17,366 | $ – | $ 17,366 |
| Settlement of management contracts and accounts receivable | 9,301 | (2,028) | 7,273 |
| Cash consideration | 49,783 | – | 49,783 |
| Acquisition costs | 3,295 | (3,295) | – |
| Gain recorded on remeasurement of previously held equity interest on acquisition | – | 9,639 | 9,639 |
| Bargain purchase on acquisition | – | 4,428 | 4,428 |
| Total consideration | $ 79,745 | $ 8,744 | $ 88,489 |

As the acquisitions of The Meridian Portfolio and The Regency Portfolio were completed in steps, Chartwell was required to remeasure the original 50% interest to fair value. As a result, a gain of $9,639 was recorded in other expense (income). The combined net book value of the portfolios, prior to the purchase of the second 50% interest was $200,183. If these acquisitions had occurred on January 1, 2010, they would have contributed revenue of $142,806 and loss of $1,815 at 100% ownership interest.

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

## 4. Property, plant and equipment:

| | Land | Building | Furniture, fixtures and equipment | Properties under development | Land held for development | Total |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| Balance, January 1, 2010 | $ 255,801 | $ 2,049,739 | $ 35,068 | $ 11,006 | $ 18,643 | $ 2,370,257 |
| Additions | 836 | 18,187 | 5,307 | 15,012 | 1,889 | 41,231 |
| Additions through business combinations | 29,382 | 262,981 | 14,208 | 420 | 8,297 | 315,288 |
| Disposals | (3,961) | (28,051) | (893) | – | (2,380) | (35,285) |
| Transfers | 3,171 | 10,669 | 233 | (9,608) | (4,465) | – |
| Exchange differences on translation of United States Operations | (4,179) | (38,742) | (893) | (182) | (321) | (44,317) |
| Balance, December 31, 2010 | 281,050 | 2,274,783 | 53,030 | 16,648 | 21,663 | 2,647,174 |
| Additions | – | 27,437 | 8,099 | 35,741 | 1,875 | 73,152 |
| Additions through business combinations | 23,419 | 136,800 | 5,275 | – | – | 165,494 |
| Disposals | (6,600) | (57,432) | (1,457) | – | (5,400) | (70,889) |
| Derecognition | – | (8,636) | (1,701) | – | – | (10,337) |
| Transfers | (5,040) | – | – | 4,775 | 265 | – |
| Exchange differences on translation of United States Operations | 1,661 | 16,085 | 381 | 113 | 137 | 18,377 |
| Balance, December 31, 2011 | $ 294,490 | $ 2,389,037 | $ 63,627 | $ 57,277 | $ 18,540 | $ 2,822,971 |
| **Depreciation and impairment losses** | | | | | | |
| Balance, January 1, 2010 | $ – | $ 5,062 | $ 3,346 | $ – | $ – | $ 8,408 |
| Depreciation | – | 149,916 | 10,859 | – | – | 160,775 |
| Disposals due to step acquisitions | – | (3,442) | (225) | – | – | (3,667) |
| Disposals | – | (1,250) | (79) | – | – | (1,329) |
| Exchange differences on translation of United States Operations | – | (1,995) | (194) | – | – | (2,189) |
| Balance, December 31, 2010 | – | 148,291 | 13,707 | – | – | 161,998 |
| Depreciation | – | 155,480 | 15,364 | – | – | 170,844 |
| Disposals due to step acquisitions | – | (32,318) | (1,662) | – | – | (33,980) |
| Disposals | – | (8,756) | (407) | – | – | (9,163) |
| Derecognition | – | (8,636) | (1,701) | – | – | (10,337) |
| Impairment | – | 11,200 | – | 1,880 | – | 13,080 |
| Exchange differences on translation of United States Operations | – | 3,710 | 278 | – | – | 3,988 |
| Balance, December 31, 2011 | $ – | $ 268,971 | $ 25,579 | $ 1,880 | $ – | $ 296,430 |
| **Carrying amounts** | | | | | | |
| Balance, January 1, 2010 | $ 255,801 | $ 2,044,677 | $ 31,722 | $ 11,006 | $ 18,643 | $ 2,361,849 |
| Balance, December 31, 2010 | 281,050 | 2,126,492 | 39,323 | 16,648 | 21,663 | 2,485,176 |
| Balance, December 31, 2011 | 294,490 | 2,120,066 | 38,048 | 55,397 | 18,540 | 2,526,541 |

**4. Property, plant and equipment (continued):**

The Trust capitalized $1,303 of borrowing costs related to development projects under construction at an average capitalization rate of 5.43%.

Included in PP&E are assets under finance leases with a carrying value as at December 31, 2011 of $99,020 (December 31, 2010 - $103,045). The properties are leased for a nominal amount and at the expiry date, Chartwell is obliged to purchase the right, title and interest in the properties for a nominal amount.

The following are the transactions that occurred during the year ended December 31, 2011:

(a) The Trust purchased a parcel of development land in Hamilton, Ontario for cash consideration of $1,875.

(b) On July 31, 2011, the Trust disposed of one retirement community, assets and liabilities of which were included in the Canadian Retirement Operations segment. The sale price was $70,000, of which $1,500 was held in escrow to provide the purchaser with income protection until the expiration of current resident incentives and the achievement of 97% occupancy or higher for a consecutive three-month period. The purchaser assumed an existing debt of $47,026, with the balance, net of working capital adjustments, received in cash. As a result of this transaction, the Trust recorded a gain on sale of $5,926 included in other expense (income) (note 22).

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

**5. Intangible assets:**

| | Management contracts | Licenses | Other[1] | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, January 1, 2010 | $ 5,486 | $ 25,650 | $ 11,754 | $ 42,890 |
| Additions | – | – | 1,082 | 1,082 |
| Additions through business combinations | – | 18,684 | – | 18,684 |
| Disposals | (4,506) | – | – | (4,506) |
| Exchange differences on translation of United States Operations | – | – | (491) | (491) |
| Balance, December 31, 2010 | 980 | 44,334 | 12,345 | 57,659 |
| Additions | – | – | 3,031 | 3,031 |
| Disposals | – | – | (524) | (524) |
| Exchange differences on translation of United States Operations | – | – | 302 | 302 |
| Balance, December 31, 2011 | $ 980 | $ 44,334 | $ 15,154 | $ 60,468 |
| **Amortization and impairment losses** | | | | |
| Balance, January 1, 2010 | $ 2,412 | $ – | $ 2,794 | $ 5,206 |
| Amortization | 289 | – | 2,055 | 2,344 |
| Disposals | (2,478) | – | – | (2,478) |
| Exchange differences on translation of United States Operations | – | – | (153) | (153) |
| Balance, December 31, 2010 | 223 | – | 4,696 | 4,919 |
| Amortization | 63 | – | 2,492 | 2,555 |
| Exchange differences on translation of United States Operations | – | – | 115 | 115 |
| Balance, December 31, 2011 | $ 286 | $ – | $ 7,303 | $ 7,589 |
| **Carrying amounts** | | | | |
| Balance, January 1, 2010 | $ 3,074 | $ 25,650 | $ 8,960 | $ 37,684 |
| Balance, December 31, 2010 | 757 | 44,334 | 7,649 | 52,740 |
| Balance, December 31, 2011 | 694 | 44,334 | 7,851 | 52,879 |

[1]Other intangibles consist of the allocated cost of acquired operating leases of senior housing properties, below-market management contracts and software costs.

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

## 5. Intangible assets (continued):

During the year ended December 31, 2011, Chartwell disposed of its ownership interest in Horizon Bay Chartwell ("HBC") and Horizon Bay Chartwell II ("HBCII") to Horizon Bay Realty LLC with a carrying value of net assets of $524. In exchange, Chartwell entered into below-market management contracts with Brookdale Senior Living Inc. for 45 communities in the United States with a fair value of $2,935 (U.S. $3,000). A net gain of $1,848, net of disposition costs and working capital adjustments of $563, was recorded in other expense (income) (note 22).

## 6. Mezzanine loans receivable:

The following table summarizes mezzanine loans receivable from Melior, Spectrum and Partners and other joint-venture partners:

| | | | Net balance (Principal amount less lending expenses) | | |
|---|---|---|---|---|---|
| | Note | Contractual interest rate | December 31, 2011 | December 31, 2010 | January 1, 2010 |
| Spectrum and Partners, outside Québec | (a) | 10% - 14% | $ 11,605 | $ 17,603 | $ 25,023 |
| Melior, Spectrum and Partners, in Québec | (b) | 10% | 8,551 | 22,128 | 47,376 |
| Seasons and Partners | (c) | 10% | 2,607 | 2,607 | 13,432 |
| | | | 22,763 | 42,338 | 85,831 |
| Provision, opening balance | | | 21,535 | 30,508 | 30,508 |
| Settlement of mezzanine loans | | | – | (12,535) | – |
| Additions to provision/reallocated on collection of certain accounts receivable | | | 851 | 3,562 | – |
| Offset against principal amount of loans | (b) | | (9,276) | – | – |
| Provision, closing balance | | | 13,110 | 21,535 | 30,508 |
| | | | $ 9,653 | $ 20,803 | $ 55,323 |
| Current | | | $ 9,653 | $ 14,768 | $ 28,589 |
| Non-current | | | – | 6,035 | 26,734 |
| | | | $ 9,653 | $ 20,803 | $ 55,323 |

**6. Mezzanine loans receivable (continued):**

(a) Spectrum and Partners, outside Québec:

The loans are secured by second charges or pledges over seven (December 31, 2010 - 10) senior housing development properties.

During the year ended December 31, 2011, two mezzanine loans in the amount of $3,886 were collected in cash and two other mezzanine loans totalling $2,113 were settled as part of the consideration on the acquisition of two properties.

Chartwell's settlement agreement with Spectrum expired on June 30, 2011. In October 2011, Chartwell amended and restated the terms of its settlement agreement to allow Spectrum to sell certain of its assets to Renaissance Lifestyle Communities Inc. ("Renaissance") pursuant to its Initial Public Offering. Subsequently, Chartwell was notified that the previously announced sale of certain Spectrum assets to Renaissance was not proceeding at that time. Chartwell retains all of its rights under the agreements with Spectrum, including mezzanine loan agreements and the development agreement, as amended. Chartwell continues to work with Spectrum to collect its accounts receivable and mezzanine loans and to manage certain of its operating properties.

(b) Melior, Spectrum and Partners, in Québec:

The loans are secured by second mortgages over two (December 31, 2010 - six) senior housing development properties.

During the year ended December 31, 2011, three mezzanine loans in the amount of $9,276, which had previously been fully provided for, were deemed unrecoverable and were written off.

During the year ended December 31, 2011, one mezzanine loan in the amount of $4,301 was collected in cash.

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

## 6. Mezzanine loans receivable (continued):

(c) Seasons and Partners:

This loan is secured by a second charge over one (December 31, 2010 - one) operating long-term care community.

Each mezzanine loan matures on the earliest of: (i) the fifth anniversary of the initial advance of the funds; (ii) the date of sale of the related development property; or (iii) on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development and Loan Agreements with the Borrowers. No principal amounts are due prior to maturity of each loan.

## 7. Trade and other receivables:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Trade receivables | $ 12,586 | $ 14,288 | $ 13,955 |
| Due from Spectrum | 558 | 173 | 218 |
| Due from ING | – | 134 | 6,610 |
| | $ 13,144 | $ 14,595 | $ 20,783 |

The Trust's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 19.

## 8. Capital funding receivable:

The capital funding receivable of $59,120 (December 31, 2010 - $62,596) represents the discounted cash flows from the Government of Ontario over a remaining period of approximately 11 years in respect of construction costs of 12 long-term care properties. The receipt of funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. The discount rate used is based upon long-term Ontario Government Bond rates.

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

## 9. Other assets:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Prepaid expenses and deposits | $ 9,292 | $ 10,659 | $ 10,531 |
| Restricted cash | 11,625 | 9,232 | 10,473 |
| Lease purchase option | 4,362 | 4,266 | 4,507 |
| Other assets | 9,218 | 4,301 | 5,072 |
| | $ 34,497 | $ 28,458 | $ 30,583 |
| Current | $ 27,153 | $ 21,037 | $ 24,524 |
| Non-current | 7,344 | 7,421 | 6,059 |
| | $ 34,497 | $ 28,458 | $ 30,583 |

Restricted cash relates to capital expenditure reserves required in the United States for certain mortgages.

Included in other assets as at December 31, 2011 is a $5,000 deposit on the purchase of a portfolio of 42 retirement communities located in Ontario, Quebec, British Columbia and Alberta ("Maestro portfolio") (note 29).

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

## 10. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about the Trust exposure to interest rates, foreign currency and liquidity risk, see note 19.

The mortgages payable as at December 31, 2011 are as follows:

| | Regular principal payments | Principal due on maturity | Total debt | % of total maturing debt principal | Weighted average interest rate % |
|---|---|---|---|---|---|
| 2012 | $ 40,279 | $ 168,755 | $ 209,034 | 11.76% | 4.94% |
| 2013 | 40,538 | 144,784 | 185,322 | 10.09% | 5.04% |
| 2014 | 36,072 | 132,203 | 168,275 | 9.21% | 4.36% |
| 2015 | 33,668 | 201,479 | 235,147 | 14.04% | 5.08% |
| 2016 | 30,272 | 277,753 | 308,025 | 19.36% | 6.10% |
| 2017 | 21,496 | 241,577 | 263,073 | 16.83% | 5.70% |
| 2018 | 22,639 | 32,625 | 55,264 | 2.27% | 5.55% |
| 2019 | 21,549 | 97,478 | 119,027 | 6.79% | 6.18% |
| 2020 | 21,453 | 34,734 | 56,187 | 2.42% | 4.54% |
| 2021 | 19,835 | 39,091 | 58,926 | 2.72% | 4.70% |
| 2022 | 18,469 | 12,254 | 30,723 | 0.85% | 5.60% |
| 2023 | 16,540 | 13,648 | 30,188 | 0.95% | 6.01% |
| 2024 | 11,822 | 17,393 | 29,215 | 1.21% | 7.13% |
| Thereafter | 110,641 | 21,486 | 132,127 | 1.50% | 4.97% |
| | $ 445,273 | $ 1,435,260 | 1,880,533 | 100.00% | |
| Mark-to-market adjustments on acquisition | | | 13,119 | | |
| Financing costs | | | (17,386) | | |
| | | | $ 1,876,266 | | |
| Current | | | $ 205,373 | | |
| Non-current | | | 1,670,893 | | |
| | | | $ 1,876,266 | | |

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

**10. Secured debt (continued):**

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Mortgages at fixed rates: | | | |
| Mortgages | $ 1,784,835 | $ 1,650,282 | $ 1,578,454 |
| Interest rates | 2.50% - 10.00% | 2.50% - 10.00% | 2.03% - 10.00% |
| Weighted average interest rate | 5.54% | 5.48% | 5.49% |
| Mortgages at variable rates: | | | |
| Mortgages | $ 95,698 | $ 85,775 | $ 53,747 |
| Interest rates | Lenders COF plus 2.00% to prime plus 2.50% | BA plus 300bps to prime plus 2.25% | Lender COF plus 2.00% to prime plus 4.75% |
| Weighted average interest rate | 4.37% | 4.73% | 3.56% |
| Blended weighted average rate | 5.48% | 5.44% | 5.42% |

During the year ended December 31, 2011, interest expense on mortgages payable amounted to $97,385 (December 31, 2010 - $95,935).

(b) Credit Facility:

Chartwell has arranged for an $85,000 Credit Facility. At December 31, 2011, the maximum available borrowing capacity under the Credit Facility was $85,000 (December 31 2010 - $75,000; January 1, 2010 - $61,931) based on the security provided. Of this capacity, $2,253 (December 31, 2010 - $2,116; January 1, 2010 - $1,950) has been allocated to support various letters of credit issued by Chartwell. During the three-month period ended June 30, 2011, the Credit Facility was renewed and now matures June 24, 2012. As part of the renewal, the Credit Facility was increased to $85,000 from the previous limit of $75,000. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.65% or the applicable bankers' acceptance rate plus 2.65%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to Unitholders. The Credit Facility is secured by charges on specific properties. As at December 31, 2011, $53,000 (December 31, 2010 - $51,000; January 1, 2010 - nil) was outstanding under the Credit Facility.

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

## 11. Convertible debentures:

The Trust has elected to designate convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.9% convertible debentures at December 31, 2011 was $101.90 (December 31, 2010 - $102.50).

The Trust has the following series of convertible debentures outstanding:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| 6.0% convertible debentures (a): | | | |
| Principal | $ – | $ – | $ 124,925 |
| Fair value | – | – | 128,048 |
| 5.9% convertible debentures (b): | | | |
| Principal | $ 75,000 | $ 75,000 | $ 75,000 |
| Fair value | 76,425 | 76,876 | 76,875 |

(a) 6.0% convertible debentures:

On December 3, 2010, the Trust settled the 6.0% convertible debentures totalling $124,925 for face value plus accrued interest of $3,789 for $128,714 in cash.

(b) 5.9% convertible debentures:

The 5.9% convertible debentures bear interest at an annual rate of 5.9% payable semi-annually in arrears on May 1 and November 1 in each year commencing May 1, 2007. Each 5.9% convertible debentures is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of May 1, 2012 and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.9% convertible debentures, at a conversion price of $16.25 per Trust Unit. Holders converting their 5.9% convertible debentures will be entitled to receive in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.9% convertible debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the Unitholders entitled to receive a distribution on the Trust Units. In the event Chartwell has suspended regular distributions, then 5.9% convertible debentures holders, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last payment date prior to the date of conversion.

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

**11. Convertible debentures (continued):**

The 5.9% convertible debentures were not redeemable by Chartwell before May 1, 2010, except in the event of satisfaction of certain conditions after a change in control has occurred. On and after May 1, 2010 but prior to May 1, 2011, the 5.9% convertible debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume - weighted average trading price, as defined in the Indenture is not less than 125% of the conversion price. On or after May 1, 2011, the 5.9% convertible debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.9% convertible debentures on redemption or maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price, as defined in the Trust Indenture relating to the debenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.9% convertible debentures Trustee to satisfy the obligations to pay interest on the 5.9% convertible debentures.

On February 15, 2012, Chartwell announced it would redeem these debentures in full on or about March 19, 2012, with cash (note 29).

**12. Accounts payable and other liabilities:**

| | Note | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | | $ 93,325 | $ 76,244 | $ 70,466 |
| Resident deposits | | 4,014 | 3,973 | 4,348 |
| Deferred revenue | | 6,897 | 5,637 | 4,004 |
| Deferred Trust Units | (a) | 3,013 | 1,363 | 644 |
| Restricted Trust Units | (b) | 676 | 238 | – |
| Fair value of LTIP option component | (c) | 3,731 | 5,476 | 3,776 |
| Other liabilities | | 32 | 646 | 1,466 |
| | | $ 111,688 | $ 93,577 | $ 84,704 |

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

## 12. Accounts payable and other liabilities (continued):

(a) Deferred Unit Plan:

The Trust provides a Deferred Unit Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of Deferred Trust Units. The Trust matches on a one-on-one basis the number of Trust Units elected to be received by directors. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of the Trust's Units, as defined in the plan, on the date distributions are paid. Deferred Trust Units cannot be distributed to the directors until after they retire from the board.

As described in note 2(j)(iii), under IFRS, this plan is considered a cash-settled plan with the value of issued Units recorded as a liability on the consolidated balance sheets. The liability is released to equity after retirement of the director. The liability is revalued at each reporting date based on the trading value of Trust Units. Distributions on Deferred Trust Units are included in general, administrative and trust expenses in profit or loss.

The Trust has elected to designate Deferred Trust Units as FVTPL. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The market price of the Trust Units as at December 31, 2011 was $8.50.

The following table summarizes the Deferred Trust Unit activity since January 1, 2010:

| | Units outstanding | Amount |
|---|---|---|
| Balance, January 1, 2010 | 120,592 | $ 644 |
| Units granted | 78,306 | 641 |
| Reinvested distributions | 9,936 | 78 |
| Balance, December 31, 2010 | 208,834 | 1,363 |
| Units granted | 127,449 | 1,054 |
| Reinvested distributions | 18,267 | 141 |
| Change in fair value | – | 455 |
| Balance, December 31, 2011 | 354,550 | $ 3,013 |

**12. Accounts payable and other liabilities (continued):**

(b) Restricted Unit Plan:

Under the terms of the Restricted Unit Plan, qualified senior employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash. The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of the Trust Units, as defined by the plan, on the date distributions are paid. Restricted Units are recognized as compensation expense evenly over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is adjusted to fair market value using the trading value of listed Trust Units at each reporting date.

The Restricted Unit Plan was amended, effective January 1, 2012, to provide that the amounts payable to certain participants on vesting will be determined based on the extent to which Chartwell has achieved certain AFFO targets over a three-year period. The amendments will be mandatory for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of Chartwell, and certain senior executives of Chartwell will have the ability to opt-in and have the amendments apply to their Restricted Units (collectively, the "Applicable Participants"). Grants of Restricted Units to Applicable Participants will continue to vest on the vesting date.

During the year ended December 31, 2011, 62,701 Restricted Trust Units related to grants were issued, with 4,659 Units subsequently being cancelled, and 10,305 units were issued related to reinvested distributions.

(c) LTIP:

Chartwell's recourse on the LTIP receivable is limited to the Trust Units it holds as security. The limited recourse nature of the LTIP receivable effectively provides a participant with a put option as the participant may elect to not repay the receivable in full. The fair value of this option is measured using the Monte Carlo simulation method.

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

## 12. Accounts payable and other liabilities (continued):

The following table summarizes the assumptions used to determine the fair value of the LTIP option component:

| | 2011 | 2010 |
|---|---|---|
| Expected volatility | 18.0-23.0% | 25.0-30.0% |
| Risk free rate | 1.2-2.2% | 2.0-3.3% |
| Distribution yield | 5.1-6.2% | 5.8-6.3% |

## 13. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

| Business combination | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Castel Royale | $ 520 | $ 520 | $ 520 |
| Elizabeth Towers | – | – | 918 |
| Heritage Glen | 4,808 | 6,992 | 9,075 |
| Merrill Gardens portfolio | – | – | 3,079 |
| | $ 5,328 | $ 7,512 | $ 13,592 |
| Current | $ 5,328 | $ 2,704 | $ 3,710 |
| Non-current | – | 4,808 | 9,882 |
| | $ 5,328 | $ 7,512 | $ 13,592 |

The deferred purchase consideration on Castel Royale is payable upon conversion of the existing apartment units to retirement suites.

On November 1, 2011, Chartwell paid $2,500 in cash with respect to the Heritage Glen acquisition. The remaining balance is due on November 1, 2012.

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

## 14. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability under IFRS. The Trust has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one for one exchange feature for each Class B Unit into a Trust Unit. The market price of the Trust Units as at December 31, 2011 was $8.50 (December 31, 2010 - $8.18).

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. Under IFRS, these distributions are included in finance cost in profit or loss.

| | Units outstanding | Amount |
|---|---|---|
| Balance, January 1, 2010 | 1,976,859 | $ 13,897 |
| Exchange of Class B Units into Trust Units | (262,207) | (2,239) |
| Change in fair value | – | 2,369 |
| Balance, December 31, 2010 | 1,714,652 | 14,027 |
| Exchange of Class B Units into Trust Units | (33,127) | (272) |
| Change in fair value | – | 537 |
| Balance, December 31, 2011 | 1,681,525 | $ 14,292 |

## 15. Unitholders' equity and LTIP:

(a) Trust Units:

Chartwell is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by holders. Upon receipt of redemption notice by Chartwell, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

(i) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10-trading-day period ending immediately prior to the date on which the Units were surrendered for redemption; and

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

**15. Unitholders' equity and LTIP (continued):**

(ii) 100% of the "closing market price" on the principal market on which the Units are listed for trading on the redemption date.

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50 unless waived at the discretion of the Trustees and satisfied by way of cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds $50 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

The following Trust Units are issued and outstanding:

| | Number of voting Units | Amount |
|---|---|---|
| Balance, January 1, 2010 | 125,762,133 | $ 1,307,016 |
| Trust Units issued under DRIP | 628,792 | 4,795 |
| Trust Units issued in exchange of Class B Units | 262,207 | 2,239 |
| Trust Units released on settlement of LTIP receivable | 170,000 | 1,694 |
| Trust Units issued pursuant to public offering | 13,775,000 | 124,217 |
| Balance, December 31, 2010 | 140,598,132 | 1,439,961 |
| Trust Units issued under DRIP | 1,966,054 | 15,075 |
| Trust Units issued in exchange of Class B Units | 33,127 | 272 |
| Trust Units released on settlement of LTIP receivable | 94,313 | 930 |
| Balance, December 31, 2011 | 142,691,626 | $ 1,456,238 |

**15. Unitholders' equity and LTIP (continued):**

(b) LTIP:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the Units for 20 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 on the LTIP receivable at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time LTIP Units are issued over a 10-year fixed period. All distributions on the Trust Units under the LTIP are applied as payments, first of interest and the balance toward the principal of the LTIP receivable. Participants may prepay any principal at their discretion and receive the Units. Trust Units issued under the LTIP are held as security for the outstanding LTIP receivable. If a participant elects to withdraw from the plan without paying the LTIP receivable in full, Chartwell may elect to sell the Trust LTIP Units in satisfaction of the outstanding receivable amounts. Chartwell's recourse is limited to the Trust Units it holds as security.

Subsequent to 2005, the LTIP was amended to include vesting provisions at the discretion of the Trustees. Since that time, all Units issued to full-time employees have the following vesting provisions: one-third in the first year of employment; one-third in the third year of employment; and one-third in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,192,845 (2010 - 2,244,858) were issued and 3,708,045 (2010 - 3,656,032) were available to be issued at December 31, 2011.

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

**15. Unitholders' equity and LTIP (continued):**

The following table summarizes Trust Units issued under the LTIP:

| | Number of Trust Units issued under LTIP | Amount |
|---|---|---|
| Balance, January 1, 2010 | 2,436,895 | $ 28,728 |
| Trust Units issued under LTIP | 146,882 | 1,139 |
| Trust Units issued under LTIP surrendered for cancellation under LTIP | (168,919) | (1,756) |
| Trust Units released on settlement of LTIP receivable | (170,000) | (1,694) |
| Balance, December 31, 2010 | 2,244,858 | 26,417 |
| Trust Units issued under LTIP | 166,983 | 1,423 |
| Trust Units surrendered for cancellation under LTIP | (124,683) | (1,434) |
| Trust Units released on settlement of LTIP receivable | (94,313) | (930) |
| Balance, December 31, 2011 | 2,192,845 | $ 25,476 |

The compensation expense attributable to the LTIP of $358 for the year ended December 31, 2011 (2010 - $314) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities. The LTIP receivable is also recognized in Unitholders' equity. Distributions received on Trust Units issued under the LTIP are charged to Unitholders' equity while interest received on LTIP receivable is credited to distributions.

(c) DRIP:

Chartwell 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%.

**16. Segmented information:**

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care and United States Operations separately. Subsequent to December 31, 2010, Chartwell has changed the composition of its reportable segments as management operations no longer satisfy the threshold of a reportable segment. Prior periods have been restated to accommodate this change.

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

## 16. Segmented information (continued):

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

| 2011 | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other | Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Resident | $ 355,723 | $ 200,221 | $ 194,690 | $ 750,634 | $ – | $ 750,634 |
| Management and other fees | – | – | – | – | 3,137 | 3,137 |
| Mezzanine loan interest | – | – | – | – | 1,601 | 1,601 |
| | 355,723 | 200,221 | 194,690 | 750,634 | 4,738 | 755,372 |
| Expenses: | | | | | | |
| Direct operating | 227,874 | 174,622 | 129,636 | 532,132 | – | 532,132 |
| General, administrative and Trust | – | – | – | – | 24,758 | 24,758 |
| | 227,874 | 174,622 | 129,636 | 532,132 | 24,758 | 556,890 |
| Income (loss) before the undernoted[(1)] | 127,849 | 25,599 | 65,054 | 218,502 | (20,020) | 198,482 |
| Finance costs (recovery): | | | | | | |
| Contractual interest | 43,159 | 13,965 | 37,624 | 94,748 | 5,941 | 100,689 |
| Other | 1,458 | (1,689) | 1,556 | 1,325 | 1,317 | 2,642 |
| Property lease expense | 126 | 269 | 2,025 | 2,420 | – | 2,420 |
| Other expense (income): | | | | | | |
| Interest | – | (3,480) | – | (3,480) | (337) | (3,817) |
| Other | (3,888) | 1,514 | 5,583 | 3,209 | – | 3,209 |
| Depreciation and amortization | 98,539 | 9,064 | 64,437 | 172,040 | 1,359 | 173,399 |
| Changes in fair value of financial instruments and unrealized foreign exchange gains | – | – | – | – | (2,932) | (2,932) |
| | 139,394 | 19,643 | 111,225 | 270,262 | 5,348 | 275,610 |
| Income (loss) before income taxes | (11,545) | 5,956 | (46,171) | (51,760) | (25,368) | (77,128) |
| Income tax benefit | – | – | – | – | 13,797 | 13,797 |
| Net income (loss) | $ (11,545) | $ 5,956 | $ (46,171) | $ (51,760) | $ (11,571) | $ (63,331) |
| Expenditures for non-current assets: | | | | | | |
| Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets | $ 23,590 | $ – | $ 175,884 | $ 199,474 | $ – | $ 199,474 |
| Capital additions | 50,913 | 6,254 | 19,016 | 76,183 | – | 76,183 |

(1) Refers to income before finance costs, property lease expense, other income, depreciation of PP&E, amortization of intangible assets and changes in fair values of financial instruments and unrealized foreign exchange losses (gains).

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

## 16. Segmented information (continued):

| 2010 | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other | Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Resident | $ 347,853 | $ 176,562 | $ 182,751 | $ 707,166 | $ – | $ 707,166 |
| Management and other fees | – | – | – | – | 4,675 | 4,675 |
| Mezzanine loan interest | – | – | – | – | 5,419 | 5,419 |
| | 347,853 | 176,562 | 182,751 | 707,166 | 10,094 | 717,260 |
| Expenses: | | | | | | |
| Direct operating | 223,389 | 152,851 | 120,285 | 496,525 | – | 496,525 |
| General, administrative and Trust | – | – | – | – | 24,761 | 24,761 |
| | 223,389 | 152,851 | 120,285 | 496,525 | 24,761 | 521,286 |
| Income (loss) before the undernoted[(1)] | 124,464 | 23,711 | 62,466 | 210,641 | (14,667) | 195,974 |
| Finance costs (recovery): | | | | | | |
| Contractual interest | 43,834 | 12,403 | 40,096 | 96,333 | 8,950 | 105,283 |
| Other | 2,331 | (1,203) | 1,036 | 2,164 | 1,538 | 3,702 |
| Property lease expense | 126 | 197 | 2,004 | 2,327 | – | 2,327 |
| Other income: | | | | | | |
| Interest | – | (2,953) | (125) | (3,078) | (1,462) | (4,540) |
| Other | (1,794) | (3,710) | (4,417) | (9,921) | – | (9,921) |
| Depreciation and amortization | 97,769 | 8,806 | 55,876 | 162,451 | 668 | 163,119 |
| Changes in fair value of financial instruments and unrealized foreign exchange losses | – | – | – | – | 4,346 | 4,346 |
| | 142,266 | 13,540 | 94,470 | 250,276 | 14,040 | 264,316 |
| Income (loss) before income taxes | (17,802) | 10,171 | (32,004) | (39,635) | (28,707) | (68,342) |
| Income tax benefit | – | – | – | – | 6,394 | 6,394 |
| Net income (loss) | $ (17,802) | $ 10,171 | $ (32,004) | $ (39,635) | $ (22,313) | $ (61,948) |
| Expenditures for non-current assets: | | | | | | |
| Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets | $ 150,580 | $ 95,621 | $ 113,224 | $ 359,425 | $ – | $ 359,425 |
| Capital additions | 22,520 | 11,376 | 6,807 | 40,703 | – | 40,703 |

(1) Refers to income before finance costs, property lease expense, other income, depreciation of PP&E, amortization of intangible assets and changes in fair values of financial instruments and unrealized foreign exchange losses (gains).

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

## 16. Segmented information (continued):

| December 31, 2011 | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other | Consolidated |
|---|---|---|---|---|---|---|
| Operating assets | $ 1,417,988 | $ 333,934 | $ 928,801 | $ 2,680,723 | $ 25,798 | $ 2,706,521 |
| Operating liabilities | $ 958,046 | $ 243,848 | $ 789,681 | $ 1,991,575 | $ 179,154 | $ 2,170,729 |

| December 31, 2010 | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other | Consolidated |
|---|---|---|---|---|---|---|
| Operating assets | $ 1,506,185 | $ 334,104 | $ 802,073 | $ 2,642,362 | $ 36,734 | $ 2,679,096 |
| Operating liabilities | $ 947,029 | $ 252,143 | $ 630,393 | $ 1,829,565 | $ 191,032 | $ 2,020,597 |

| January 1, 2010 | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other | Consolidated |
|---|---|---|---|---|---|---|
| Operating assets | $ 1,459,761 | $ 251,806 | $ 773,070 | $ 2,484,637 | $ 172,352 | $ 2,656,989 |
| Operating liabilities | $ 949,130 | $ 180,933 | $ 594,879 | $ 1,724,942 | $ 270,113 | $ 1,995,055 |

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

## 17. Joint venture operations:

At December 31, 2011, the Trust has an interest in a number of jointly controlled entities, which have been accounted for under the proportionate consolidation method. The following table presents Chartwell's ownership interests in the significant jointly controlled entities:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| CSH-ING (CAD)[(1)] | – | – | 50% |
| CSH-INGRE LLC (US)[(2)] | 50% | 50% | 50% |
| Other Canadian joint ventures[(3)] | various | 50% | 50% |

(1) On June 1, 2010, Chartwell acquired it's partner's 50% interest and owns 100% in this joint venture, which owns eight long-term care properties in Ontario.

(2) On May 14, 2010, Chartwell acquired it's partner's 50% interest and owns 100% in six properties located in Colorado and Texas. On November 1, 2011, Chartwell acquired it's partner's 50% interest and owns 100% in 15 properties located in various U.S. States. At December 31, 2011, this joint venture owns 100% interest in five properties located in New York State.

(3) Includes interests in six separate joint ventures at January 1, 2010, seven joint ventures as of December 31, 2010 and seven joint ventures at December 31, 2011. At December 31, 2011, Chartwell holds a 50% interest in six of these joint ventures and a 33% interest in one joint venture.

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

### 17. Joint venture operations (continued):

The following is the summarized financial information in respect of the interests in these significant jointly controlled entities at Chartwell's share:

| | As at and for the year ended December 31, 2011 | As at and for the year ended December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| CSH-ING (CAD) | $ – | $ – | $ 5,359 |
| CSH-INGRE LLC (US) | 2,726 | 9,542 | 2,493 |
| Other Canadian joint ventures | 1,620 | 1,049 | 1,614 |
| Total current assets | 4,346 | 10,591 | 9,466 |
| CSH-ING (CAD) | – | – | 83,657 |
| CSH-INGRE LLC (US) | 100,908 | 291,051 | 448,496 |
| Other Canadian joint ventures | 100,624 | 102,407 | 84,947 |
| Total non-current assets | 201,532 | 393,458 | 617,100 |
| Total assets | $ 205,878 | $ 404,049 | $ 626,566 |
| CSH-ING (CAD) | $ – | $ – | $ 7,366 |
| CSH-INGRE LLC (US) | 3,673 | 9,579 | 12,180 |
| Other Canadian joint ventures | 30,074 | 2,721 | 3,484 |
| Total current liabilities | 33,747 | 12,300 | 23,030 |
| CSH-ING (CAD) | – | – | 72,881 |
| CSH-INGRE LLC (US) | 99,821 | 232,035 | 329,151 |
| Other Canadian joint ventures | 42,140 | 70,898 | 56,521 |
| Total non-current liabilities | 141,961 | 302,933 | 458,553 |
| Total liabilities | $ 175,708 | $ 315,233 | $ 481,583 |
| CSH-ING (CAD) | $ – | $ 18,621 | |
| CSH-INGRE LLC (US) | 58,089 | 81,014 | |
| Other Canadian joint ventures | 13,820 | 13,017 | |
| Total revenue | $ 71,909 | $ 112,652 | |
| CSH-ING (CAD) | $ – | $ 18,655 | |
| CSH-INGRE LLC (US) | 71,094 | 88,938 | |
| Other Canadian joint ventures | 15,874 | 14,038 | |
| Total expenses | $ 86,968 | $ 121,631 | |

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

## 18. Significant subsidiaries:

The following subsidiaries represent significant operations of the Trust:

| | Equity interest |
|---|---|
| CSH MasterCare LP | 100% |
| CSH Master Care USA Inc. | 100% |
| CSH-INGRE LLC | 100% |

## 19. Financial instruments and financial risk management:

(a) Classification, carrying values and fair values of financial instruments:

The classification of financial instruments, not otherwise disclosed in these consolidated financial statements, as well as their carrying amounts and fair values, as shown in the consolidated balance sheets, are shown in the table below:

| | | 2011 | | 2010 | |
|---|---|---|---|---|---|
| | Note | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets: | | | | | |
| Loans and receivables recorded at amortized cost: | | | | | |
| Mezzanine loans receivable | 6 | $ 9,653 | $ 9,653 | $ 20,803 | $ 20,062 |
| Capital funding receivable | 8 | 59,120 | 61,206 | 62,596 | 61,908 |
| Financial liabilities: | | | | | |
| Financial liabilities recorded at amortized cost: | | | | | |
| Mortgages payable | 10(a) | 1,876,266 | 2,035,575 | 1,729,839 | 1,797,605 |
| Credit Facility | 10(b) | 53,000 | 53,000 | 51,000 | 51,000 |

**19. Financial instruments and financial risk management (continued):**

Fair value represents management's estimates of the market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Basis for determining fair values:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

(i) The fair value of mezzanine loans receivable is estimated by discounting expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The entire balance of mezzanine loans receivable is current and is expected to be collected during the year ended December 31, 2012. Due to the short-term nature of these loans carrying value approximates fair value.

(ii) The fair value of capital funding receivable is estimated by discounting the expected future cash flows using the yield of the applicable bonds issued by the Province of Ontario plus a risk premium. The capital funding receivable was discounted using a rate of 5.10%.

(iii) The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2011, the mortgages payable were discounted using rates between 1.75% and 4.74%.

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

## 19. Financial instruments and financial risk management (continued):

Fair value hierarchy:

The table below analyzes financial instruments carried at fair value categorized into one of the three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

| December 31, 2011 | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities recorded at FVTPL | $ 98,137 | $ 94,406 | $ – | $ 3,731 |
| Derivatives | 917 | – | 917 | – |
| | $ 99,054 | $ 94,406 | $ 917 | $ 3,731 |

| December 31, 2010 | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities recorded at FVTPL | $ 97,980 | $ 92,504 | $ – | $ 5,476 |
| Derivatives | 1,088 | – | 1,088 | – |
| | $ 99,068 | $ 92,504 | $ 1,088 | $ 5,476 |

| January 1, 2010 | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities recorded at FVTPL | $ 223,240 | $ 219,464 | $ – | $ 3,776 |
| Derivatives | 1,441 | – | 1,441 | – |
| | $ 224,681 | $ 219,464 | $ 1,441 | $ 3,776 |

**19. Financial instruments and financial risk management (continued):**

(b) Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for Unitholder returns. Chartwell is exposed to financial risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine loans, risks of changes in foreign exchange rates and rate regulation by provincial governments.

The Board of Trustees has overall responsibility for the establishment and oversight of the Trust's risk management framework. Management is responsible for developing and monitoring the Trust's risk management policies and reports regularly to the Board of Trustees on its activities.

There have been no significant changes to the Trust's risk management policies and strategies since December 31, 2010.

These risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine loans may experience financial difficulty and be unable to fulfill their contractual obligations. Chartwell has four significant categories of receivables: resident receivables, mezzanine loans, funding from various provincial governments, and fees receivable from Spectrum.

Chartwell regularly monitors the credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss.

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of the Trust's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

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

**19. Financial instruments and financial risk management (continued):**

In addition to project-specific security, all Spectrum mezzanine loans contain cross-default provisions and are secured by Spectrum's corporate guarantee. Chartwell is involved in operations management of Spectrum's properties. The mezzanine loan compliance group monitors performance and risk of each loan on an ongoing basis and reports quarterly to the Investment Committee of Chartwell.

Receivables from provincial governments represents capital and operating funding for licensed long-term care properties primarily from agencies of the Government of Ontario. Management believes that collection risk on these receivables is not significant.

Generally, the carrying amount on the consolidated balance sheets of the Trust's financial assets exposed to credit risk, net of applicable loss allowances, represents the Trust's maximum exposure to credit risk.

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible.

The aging of resident receivables is as follows:

| | December 31, 2011 |
|---|---|
| Current | $ 2,995 |
| 31 - 60 days | 1,011 |
| 61 - 90 days | 818 |
| Over 90 days | 2,098 |
| Allowance for doubtful accounts | (2,143) |
| Net resident receivables | $ 4,779 |

The Trust limits its exposure to credit risk related to derivatives by transactions with counterparties that are stable and of high credit quality.

**19. Financial instruments and financial risk management (continued):**

(ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to unitholders, and possible property acquisition funding requirements.

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the Credit Facility, raising new equity by issuing units or convertible debentures or the disposition of properties. At December 31, 2011, the Trust had $10,687 in cash and $29,747 available and undrawn on the Credit Facility.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. Management mitigates this risk by staggering debt maturities and through the use of programs, such as CMHC-insured mortgages.

There is also a risk that the Credit Facility will not be renewed on terms and conditions acceptable to the Trust or on any terms at all.

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

**19. Financial instruments and financial risk management (continued):**

Chartwell's major contractual obligations for the next 24 months as at December 31, 2011 were as follows:

| | 2012 | 2013 | Total |
|---|---|---|---|
| Accounts payable and other liabilities | $ 111,688 | $ – | $ 111,688 |
| Mortgage principal repayments | 209,034 | 185,322 | 394,356 |
| Convertible debentures | 75,000 | – | 75,000 |
| Revolving operating Credit Facility | 53,000 | – | 53,000 |
| Purchase obligations[1] | 41,949 | 118 | 42,067 |
| Property operating leases | 1,624 | 1,624 | 3,248 |
| Other operating leases | 1,166 | 1,166 | 2,332 |
| Land leases | 395 | 395 | 790 |
| | $ 493,856 | $ 188,625 | $ 682,481 |

[1]Relates to construction contracts, deferred purchase consideration and fixed price utilities contracts.

(iii) Market risk:

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as foreign exchange rates, interest rates and equity prices that will affect Chartwell's income or the value of its holdings of financial instruments. Chartwell may buy derivative instruments in the ordinary course of business, and also may incur financial liabilities, in order to manage potential market risks.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating rate debt on an ongoing basis and its fixed rate debt upon renewal. At December 31, 2011 $148,698 (December 31, 2010 - $136,775) of Chartwell's mortgages and loans payable (excluding hedged loans), bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible on renewal. It may also enter into derivative financial instruments from time to time to mitigate interest rate risk. Generally, Chartwell fixes the term of long-term debt within a range of 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate long-term debt over time.

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

**19. Financial instruments and financial risk management (continued):**

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap arrangement with a current notional principal amount of $10,248 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.6% until the mortgages matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap arrangement based on an estimate of the cost to close the contract as at December 31, 2011 is a loss position of $917 (December 31, 2010 - $1,088), which is included in accounts payable and other liabilities on the consolidated balance sheets (note 12).

At December 31, 2011, the Trust's interest-bearing financial instruments were:

| | Carrying amount | | |
|---|---|---|---|
| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
| Fixed-rate instruments: | | | |
| Financial assets (mezzanine loans) | $ 9,653 | $ 20,803 | $ 55,323 |
| Financial liabilities | 1,859,835 | 1,725,282 | 1,778,379 |
| Variable-rate instruments: | | | |
| Financial liabilities | $ 148,698 | $ 136,775 | $ 53,747 |

A change in interest rates at December 31, 2011 would not affect net income with respect to the fixed-rate instruments. Therefore, no sensitivity analysis is provided for the fixed-rate instruments.

An increase/decrease of 100 basis points in interest rates at December 31, 2011 for the variable-rate mortgages would have decreased/increased equity by $1,487 and increased/decreased the loss for the year by $1,487 (on a pre-tax basis).

**19. Financial instruments and financial risk management (continued):**

(b) Foreign currency rate risk:

At December 31, 2011, through its self-sustaining United States Operations, 34% (December 31, 2010 - 30%) of Chartwell's assets and 40% (December 31, 2010 - 35%) of Chartwell's mortgages payable were held in the United States and 26% (December 31, 2010 - 26%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining United States Operations or part of the net investment in self-sustaining United States Operations.

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from United States operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The United States Operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at December 31, 2011.

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

**19. Financial instruments and financial risk management (continued):**

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining United States Operations at December 31, 2011:

| | U.S. dollar |
|---|---|
| Cash | $ 285 |
| Loans receivable from self-sustaining United States Operations | 70,000 |
| Net investment in self-sustaining United States Operations | 71,299 |
| Net exposure | $ 141,584 |

A one cent change in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased/increased the loss for the year and decreased/increased other comprehensive loss (on a pre-tax basis) for the year as follows:

| | U.S. dollar |
|---|---|
| Change in loss | $ 1,213 |
| Change in other comprehensive loss | 713 |

(iv) Reliance on government funding:

Chartwell holds licenses related to each of its long-term care communities and in certain cases, retirement communities. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2011, the Trust received approximately $177,188 (December 31, 2010 - $159,565) in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

**20. Capital structure financial policies:**

The Trust's primary objectives in managing capital are:

(a) to provide stable and growing distributions to Unitholders;

(b) to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements;

(c) to ensure that the Trust has sufficient capital to execute on its strategic objectives, including targeted capital maintenance expenditures;

(d) to meet its development and internal growth requirements; and

(e) to ensure that the Trust has access to sufficient capital for strategic acquisitions.

In managing its capital structure, the Trust takes into consideration various factors, including changes in economic conditions, growth of its business and risk characteristics of the underlying assets.

Management defines capital as the Trust's total Unitholders' equity and long-term debt. The Trust's long-term debt primarily includes mortgages payable and convertible debentures. The issued and outstanding convertible debentures may be converted into Trust Units at the option of the holder at the specified conversion price. At the maturity date, the Trust may elect to issue Units in lieu of cash to satisfy its convertible debenture obligations. The Trust has access to a revolving Credit Facility that is secured by first and second charges on certain of its properties.

The Board of Trustees is responsible for overseeing the Trust's capital management and does so through quarterly Trustees' meetings, review of financial information and regular communication with officers and senior management of the Trust. The Board of Trustees also reviews the level of any distributions that should be made.

In order to maintain or adjust the capital structure, the Trust may issue new Units, buy back Units, issue new debt or issue new debt to replace existing debt with different characteristics, adjust the amount of distributions paid to Unitholders or by undertaking other activities as deemed appropriate under specific circumstances.

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

## 20. Capital structure financial policies (continued):

The Trust monitors capital based on the debt to adjusted gross book value ("GBV") ratio. It also monitors its interest coverage ratio. Chartwell's Declaration of Trust limits the amount of indebtedness that the Trust can incur to 60% of GBV excluding convertible debentures, or 65% of GBV including convertible debentures.

The Trust's strategy for capital management is driven by policies stated under the Declaration of Trust and external requirements from certain of its lenders. There have been no changes in the Trust's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2011 and 2010:

| | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|
| Debt to GBV, excluding convertible debentures | 57.0% | 55.3% | 1.7pp |
| Debt to GBV, including convertible debentures | 59.3% | 57.7% | 1.6pp |
| Interest coverage ratio | 1.91x | 1.81x | 0.10x |

pp = percentage points

Debt includes any obligation for borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than deferred income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in the consolidated balance sheets. Debt is determined on a consolidated basis for the Trust and its consolidated subsidiaries.

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

## 20. Capital structure financial policies (continued):

GBV means, at any time, the consolidated book value of the assets of the Trust, as shown on the Trust's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of the General Partner at any time, the appraised value thereof), plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto, plus the difference between the GBV of assets under CGAAP and IFRS at January 1, 2010, Chartwell's effective transition date ("Transition Date"), and the related costs in respect of completed property acquisitions that were expensed in the period incurred.

The debt to GBV ratio at December 31, 2011 increased primarily due to the acquisition of the ING portfolio on November 1, 2011.

## 21. Personnel expenses:

The analysis of employee benefits expense for the year ended December 31, 2011, included in the statements of comprehensive income (loss) under direct operating expenses and general, administration and Trust expenses, are as follows:

| | 2011 | 2010 |
|---|---|---|
| Salaries and wages | $ 355,531 | $ 330,506 |
| Post-employment benefits (defined contribution plans) | 4,029 | 3,423 |
| Unit-based compensation | 1,993 | 1,193 |
| | $ 361,553 | $ 335,122 |

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

## 22. Other expense (income):

| | 2011 | 2010 |
|---|---|---|
| Gain recorded on remeasurement of previously held equity interest on acquisition | $ (3,595) | $ (9,639) |
| Bargain purchase gain on acquisition | – | (4,428) |
| (Gain) loss on disposal of assets | (7,556) | 851 |
| Interest income on loans and receivables | (3,817) | (4,540) |
| Other income | (14,968) | (17,756) |
| Impairment of PP&E | 13,080 | – |
| Transaction costs arising on business acquisitions | 1,280 | 3,295 |
| Other expense | 14,360 | 3,295 |
| Other expense (income) | $ (608) | $ (14,461) |

Gain recorded on remeasurement of previously held equity interest on acquisition relates to Chartwell's step acquisitions of one property in British Columbia in May 2011 and the 15 properties in the United States in November 2011 and The Meridian and The Regency portfolios in 2010.

Included in the gain on disposal of assets are:

(a) $1,848 on divestiture of Chartwell's interests in HBC and HBCII (note 5); and

(b) $5,926 on disposal of Canadian retirement community (note 4).

On November 1, 2011, Chartwell acquired the remaining 50% interest in a 15-property portfolio in the United States from ING at a purchase price that was lower than the carrying value of the existing 50% interest. As a result, during the year ended December 31, 2011, Chartwell recorded an impairment provision of $8,500. Also in the year ended December 31, 2011, Chartwell recorded an impairment of $4,580 for two properties whose estimated recoverable amount exceeded their carrying value and for some development costs for projects that are not proceeding at this time.

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

## 23. Finance costs:

| | 2011 | 2010 |
|---|---|---|
| Contractual mortgage interest expense | $ 94,765 | $ 93,786 |
| Interest expense on convertible debentures | 4,425 | 11,337 |
| Credit Facility and other interest expense | 1,499 | 160 |
| | 100,689 | 105,283 |
| Interest capitalized to properties under development | (1,303) | (522) |
| Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable | 3,037 | 3,235 |
| Distributions on Class B Units recorded as interest expense | 908 | 989 |
| Total finance costs | $ 103,331 | $ 108,985 |

## 24. Fair values of financial instruments and unrealized foreign exchange losses (gains):

| | 2011 | 2010 |
|---|---|---|
| Changes in fair value of convertible debentures | $ (450) | $ (3,123) |
| Changes in fair value of interest rate swap | (171) | (81) |
| Unrealized foreign exchange loss (gain) | (1,322) | 3,794 |
| Changes in fair value of LTIP option component | (1,981) | 1,387 |
| Changes in fair value of Class B Units | 537 | 2,369 |
| Changes in fair value of Deferred Trust Units | 455 | – |
| Changes in fair values of financial instruments and unrealized foreign exchange losses (gains) | $ (2,932) | $ 4,346 |

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

## 25. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the Canadian deferred tax assets and liabilities are as follows as for the year ended December 31:

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets: | | |
| Mortgages payable | $ 3,774 | $ 5,224 |
| Issue costs | 3,158 | 5,527 |
| Losses carried forward | 7,288 | 5,958 |
| Other | 3,957 | 3,261 |
| | 18,177 | 19,970 |
| Deferred tax liabilities: | | |
| PP&E | (7,506) | (22,360) |
| Capital funding receivable | (23,559) | (24,959) |
| Intangible assets | (11,688) | (11,420) |
| Other | (1,749) | (1,682) |
| | (44,502) | (60,421) |
| | $ (26,325) | $ (40,451) |

The change in deferred tax liability has been recognized in profit and loss.

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. Deferred tax assets have not been recognized for these subsidiaries in respect of the following items:

| | 2011 | 2010 |
|---|---|---|
| Deductible temporary differences | $ 92,903 | $ 85,607 |
| Net operating losses | 73,700 | 53,921 |
| Capital losses | 26,597 | – |
| Total | $ 193,200 | $ 139,528 |

Net operating losses will expire between 2025 and 2031 and capital losses expire in 2016. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which these U.S. corporate subsidiaries can utilize these tax benefits.

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

## 25. Income taxes (continued):

The provision for income taxes in the consolidated statements of comprehensive loss represents an effective tax rate different than the Canadian SIFT tax rate of 46.41% (2010 - 46.41%) The differences for the years ended December 31 are as follows:

| | 2011 | 2010 |
|---|---|---|
| Loss before income taxes | $ (77,128) | $ (68,342) |
| Income tax recovery at Canadian SIFT tax rates | $ (35,795) | $ (31,717) |
| Effect of permanent differences | 301 | 724 |
| Tax benefits not recognized | 18,961 | 15,882 |
| International income tax rate differences | 4,285 | 1,497 |
| Prior period adjustments | (1,565) | 7,280 |
| Other | 16 | (60) |
| | $ (13,797) | $ (6,394) |

## 26. Commitments and contingencies:

(a) Non-cancellable operating lease rentals are payable as follows:

(i) Chartwell has leasehold interests in two properties acquired with the Merrill Gardens portfolio. The terms of these leases expire on December 31, 2017 and the leases have one renewal option for 10 years each. Minimum lease payments under these leases are $1,624 (U.S. $1,597) per annum and a total of $9,746 (U.S. $9,583) for the remaining term of the leases.

The lease provides Chartwell with the option to purchase the two properties at the end of the original lease term or at the end of the extension based on a formula contained in the lease.

(ii) Chartwell owns one property in Alberta, Canada subject to a land lease. This lease expires on July 17, 2061 with annual payments of $126.

**26. Commitments and contingencies (continued):**

(iii) Pursuant to the Regency Care Portfolio acquisition, the Trust assumed one land lease expiring August 31, 2044 with annual payments of $113 through to August 31, 2024 and $136 for the remainder of the term, and one land lease expiring May 31, 2048 with annual payments of $156, negotiated to market every 15 years thereafter.

(iv) In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to April 30, 2016. Annual payments in aggregate on these leases vary from $583 to $1,166 over the remaining term of the leases.

For the above leases, legal title does not pass to Chartwell, the rent paid is increased to market rent at regular intervals, and for the property leases, the option to purchase the properties is not at a bargain price. Chartwell has determined that substantially all of the risks and rewards incidental to ownership are still with the lessor and, as such, these leases are operating leases.

(b) Purchase obligations:

Chartwell has entered into various construction contracts related to various development and asset improvement projects. As at December 31, 2011, the remaining commitments under these contracts amounted to approximately $35,789.

Chartwell has also entered in fixed price electricity and natural gas contracts with local utilities in the United States for $758 (U.S. $746) for its own use at its properties.

**26. Commitments and contingencies (continued):**

(c) Letters of credit:

As at December 31, 2011, Chartwell was contingently liable for letters of credit in the amount of $2,263 (December 31, 2010 - $2,348).

(d) Other contracts:

On September 1, 2011, Chartwell transferred the management of 45 communities in the United States to Brookdale Senior Living ("Brookdale") as a result of Brookdale's acquisition of Horizon Bay Realty LLC ("HBR"). Under the new agreements, the average terms of the management contracts have been reduced to approximately 10 years, with a new maturity date of December 31, 2021. The base management fee for the properties under contract is 5% of gross revenue. The new contracts include an incentive fee mechanism whereby Brookdale can earn an additional fee of up to 2% of gross revenue upon the achievement of specified annual operating targets. Management fees may also be reduced by up to 1% if such annual operating targets are not achieved.

(e) Litigation and claims:

In the ordinary course of business activities, Chartwell may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell.

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

### 27. Guarantees:

Chartwell and its joint venture partners have jointly and severally guaranteed CMHC-insured loans on three properties to a maximum amount of $52,315.

### 28. Key management personnel compensation:

The remuneration of key management personnel of the Trust during the years ended December 31, 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| Officers and Trustees Compensation | $ 4,713 | $ 4,646 |
| Post-employment benefits | 60 | 46 |
| Termination benefits | 1,238 | – |
| Other long-term benefits | 438 | 238 |
| Unit-based payments | 116 | 107 |

Chartwell has a Senior Executive Committee ("SEC") who's responsibility is to provide strategic direction and oversight to the Trust. The above table includes the total compensation of members of the SEC committee and the Trustees of Chartwell.

### 29. Subsequent events:

Subsequent to December 31, 2011, Chartwell purchased the 70 suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum. The purchase price was $15,500 and was settled through the assumption of debt of $11,435, settlement of outstanding mezzanine loan of $938, settlement of outstanding accounts receivable of $926, with the balance, net of working capital adjustments, being paid in cash.

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

**29. Subsequent events (continued):**

The following summarizes the preliminary allocation of the purchase to each major category of assets acquired and liabilities assumed at the date of acquisition.

| | |
|---|---|
| Date of acquisition | January 20, 2012 |
| Segment | Canadian retirement operations |
| Location | Province of Ontario (70 suites) |
| PP&E | $ 15,500 |
| Mortgage assumed | (11,435) |
| Other liabilities | (423) |
| Net assets acquired | $ 3,642 |
| Discharge of mezzanine loans receivable | $ 938 |
| Settlement of accounts receivable | 926 |
| Cash consideration | 1,778 |
| Total consideration | $ 3,642 |

Subsequent to December 31, 2011, Seasons notified Chartwell that it has conditionally sold Madonna LTC and upon closing of the sale will be terminating Chartwell's management contract. Seasons will also repay its $2,607 mezzanine loan to Chartwell on or prior to October 31, 2012.

Subsequent to December 31, 2011, Chartwell announced that it has entered into various agreements ("Agreement") with a subsidiary of Health Care REIT, Inc., a New York Stock Exchange Listed company ("HCN") to acquire the Maestro portfolio. Under the terms of the Agreement, Chartwell and HCN will each acquire a 50% interest in 39 communities ("JV properties") and HCN will acquire 100% interest in three other communities. Chartwell will manage all 42 communities. The 100% purchase price for the JV properties is approximately $850,000 and is expected to be settled by the assumption of mortgage debt of approximately $471,000 with the balance in cash. Chartwell estimates that closing costs for these acquisitions to be approximately $22,000.

**29. Subsequent events (continued):**

Chartwell also announced that it entered into an underwriting agreement with a syndicate of underwriters to issue to the public in Canada, subject to regulatory approval, on a bought deal basis, 23,175,000 of subscription receipts at $8.20 per subscription receipt, representing $190,035 of gross proceeds. Each subscription receipt represents the right to receive one Trust Unit of Chartwell at no additional cost and without further action. Chartwell also agreed to issue $120,000 aggregate principal amount of 5.7% convertible unsecured subordinated debentures ("Debentures"). The maturity date of the Debentures will be on March 31, 2018. The Debentures will be convertible at the option of the holder in certain circumstances into Trust Units at a price of $11.00 per Trust Unit. A portion of the proceeds from the new debentures will be used to redeem the existing $75,000, 5.9% convertible debentures.

Chartwell has granted to the underwriters an over-allotment option exercisable at any time up to 30 days after closing of the offering, to acquire up to 1,738,125 additional subscription receipts, representing 7.5% of the subscription receipts offering (or, in certain circumstances, units) and up to $15 million of debentures at the same offering price and the same offering terms, respectively.

**30. Explanation of transition to IFRS:**

As of January 1, 2011, the Trust has adopted IFRS. Prior to January 1, 2011, the Trust prepared its financial statements in accordance with CGAAP.

In preparing its opening IFRS balance sheet as at January 1, 2010 (the "transition date") and comparative consolidated financial statements for 2010, the Trust has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP.

The reconciliation of equity between CGAAP to IFRS as at January 1, 2010 and December 31, 2010 and the reconciliation of loss for the year and comprehensive income (loss) for the year ended December 31, 2010 as reported in the consolidated financial statements for the periods ended March 31, 2011 and 2010 has been restated below to reflect changes in the valuation methodology used to determine the LTIP liability.

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

## 30. Explanation of transition to IFRS (continued):

An explanation of how the transition from CGAAP to IFRS has affected the Trust's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables:

(a) The following is a reconciliation of the Trust's total equity reported in accordance with CGAAP to its total equity in accordance with IFRS as at January 1, 2010:

| | Note 30(d) | CGAAP, January 1, 2010 | IFRS Reclassifications[1] | IFRS Adjustments[2] | IFRS January 1, 2010 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | | $ 106,943 | $ – | $ – | $ 106,943 |
| Trade and other receivables | | 51,366 | (30,583) | – | 20,783 |
| Mezzanine loans receivable | | – | 28,589 | – | 28,589 |
| Capital funding receivable | | – | 2,293 | – | 2,293 |
| Other assets | | – | 24,524 | – | 24,524 |
| Total current assets | | 158,309 | 24,823 | – | 183,132 |
| Non-current assets: | | | | | |
| Other assets | | – | 6,059 | – | 6,059 |
| Mezzanine loans receivable | | 55,323 | (28,589) | – | 26,734 |
| Capital funding receivable | | 43,824 | (2,293) | – | 41,531 |
| Intangible assets | (iii) | 32,047 | 25,650 | (20,013) | 37,684 |
| Licenses | | 25,650 | (25,650) | – | – |
| PP&E | (i), (iii) | 2,283,521 | – | 78,328 | 2,361,849 |
| Total non-current assets | | 2,440,365 | (24,823) | 58,315 | 2,473,857 |
| Total assets | | $ 2,598,674 | $ – | $ 58,315 | $ 2,656,989 |
| **Liabilities and Unitholders' Equity** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and other liabilities | (vii) | $ 81,367 | $ (1,083) | $ 4,420 | $ 84,704 |
| Distributions payable | | 5,857 | – | – | 5,857 |
| Mortgages payable | | – | 127,979 | – | 127,979 |
| Deferred consideration on business combinations | | – | 3,710 | – | 3,710 |
| Total current liabilities | | 87,224 | 130,606 | 4,420 | 222,250 |
| Non-current liabilities: | | | | | |
| Mortgages payable | | 1,625,281 | (127,979) | – | 1,497,302 |
| Employee benefits | (v) | – | 1,083 | (202) | 881 |
| Deferred consideration on business combinations | | 13,592 | (3,710) | – | 9,882 |
| Convertible debentures | (viii) | 188,996 | – | 15,927 | 204,923 |
| Class B Units | (ix) | – | – | 13,897 | 13,897 |
| Deferred tax liabilities | (xi) | 18,167 | – | 27,753 | 45,920 |
| Total non-current liabilities | | 1,846,036 | (130,606) | 57,375 | 1,772,805 |
| Total liabilities | | 1,933,260 | – | 61,795 | 1,995,055 |
| Non-controlling interests | (ix) | 7,813 | – | (7,813) | – |
| Unitholders' equity | | 657,601 | – | 4,333 | 661,934 |
| Total liabilities and unitholders' equity | | $ 2,598,674 | $ – | $ 58,315 | $ 2,656,989 |

[1] Reclassifications are recorded as a result of a classified balance sheet presentation under IFRS.

[2] Upon finalizing the IFRS adjustments, the amounts previously reported in the March 31, 2011 condensed consolidated interim financial statements were adjusted. The Unitholders' equity adjustment was increased from $3,658 to $4,333.

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

## 30. Explanation of transition to IFRS (continued):

(b) The following is a reconciliation of the Trust's total equity reported in accordance with CGAAP to its total equity in accordance with IFRS as at December 31, 2010:

| | Note 30(d) | CGAAP, December 31, 2010 | IFRS Reclassifications[1] | IFRS Adjustments[2] | IFRS December 31, 2010 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | | $ 14,728 | $ – | $ – | $ 14,728 |
| Trade and other receivables | | 43,578 | (28,983) | – | 14,595 |
| Mezzanine loans receivable | | – | 14,768 | – | 14,768 |
| Capital funding receivable | | – | 3,537 | – | 3,537 |
| Other assets | | – | 21,037 | – | 21,037 |
| Total current assets | | 58,306 | 10,359 | – | 68,665 |
| Non-current assets: | | | | | |
| Other assets | (iv) | – | 7,946 | (525) | 7,421 |
| Mezzanine loans receivable | | 20,803 | (14,768) | – | 6,035 |
| Capital funding receivable | (iv) | 63,865 | (3,537) | (1,269) | 59,059 |
| Intangible assets | (iii) | 36,523 | 38,581 | (22,364) | 52,740 |
| Licenses | | 38,581 | (38,581) | – | – |
| PP&E | (i), (ii) (iii) | 2,458,689 | – | 26,487 | 2,485,176 |
| Total non-current assets | | 2,618,461 | (10,359) | 2,329 | 2,610,431 |
| Total assets | | $ 2,676,767 | $ – | $ 2,329 | $ 2,679,096 |
| **Liabilities and Unitholders' Equity** | | | | | |
| Current liabilities: | | | | | |
| Credit Facility | | $ 51,000 | $ – | $ – | $ 51,000 |
| Accounts payable and other liabilities | (vii) | 87,735 | (995) | 6,837 | 93,577 |
| Distributions payable | | 6,505 | – | – | 6,505 |
| Mortgages payable | | – | 116,864 | – | 116,864 |
| Deferred consideration on business combinations | | – | 2,704 | – | 2,704 |
| Total current liabilities | | 145,240 | 118,573 | 6,837 | 270,650 |
| Non-current liabilities: | | | | | |
| Mortgages payable | (iv) | 1,732,438 | (116,864) | (2,599) | 1,612,975 |
| Employee benefits | (v) | – | 995 | (185) | 810 |
| Deferred consideration on business combinations | | 7,512 | (2,704) | – | 4,808 |
| Convertible debentures | (viii) | 70,859 | – | 6,017 | 76,876 |
| Class B Units | (ix) | – | – | 14,027 | 14,027 |
| Deferred tax liabilities | (xi) | 25,310 | – | 15,141 | 40,451 |
| Total non-current liabilities | | 1,836,119 | (118,573) | 32,401 | 1,749,947 |
| Total liabilities | | 1,981,359 | – | 39,238 | 2,020,597 |
| Non-controlling interests | (ix) | 5,429 | – | (5,429) | – |
| Unitholders' equity | | 689,979 | – | (31,480) | 658,499 |
| Total liabilities and unitholders' equity | | $ 2,676,767 | $ – | $ 2,329 | $ 2,679,096 |

(1) Reclassifications are recorded as a result of a classified balance sheet presentation under IFRS.

(2) Upon finalizing the IFRS adjustments, the amounts previously reported in the March 31, 2011 condensed consolidated interim financial statements were adjusted. The Unitholders' equity adjustment was reduced from $33,625 to 31,480.

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

## 30. Explanation of transition to IFRS (continued):

(c) The following is a reconciliation of net loss as reported in accordance with CGAAP to net loss in accordance with IFRS for the year ended December 31, 2010:

| | Note 30(d) | Year ended December 31, 2010[1] |
|---|---|---|
| Loss for the year, as reported under CGAAP | | $ (26,337) |
| Decreases to reported amount: | | |
| Reversal of non-controlling interest | (ix) | (371) |
| Depreciation and amortization | (i), (iii) | (65,730) |
| | | (66,101) |
| Finance costs: | | |
| Accretion and deferred financing on debentures | (viii) | 6,788 |
| Interest distributions on Class B Units | (ix) | (989) |
| Borrowing costs | (ii) | (1,209) |
| Changes in fair value remeasurement of mortgages | (iv) | (45) |
| | | 4,545 |
| Other income (expense): | | |
| Remeasurement of previously held equity interest on acquisition | (iv) | 9,639 |
| Bargain purchase on acquisitions | (iv) | 4,428 |
| Reversal of impairment on PP&E under CGAAP | (i) | 8,600 |
| Remeasurement of gain on sale of assets | (i) | (5,691) |
| Transaction costs on acquisition | (iv) | (3,295) |
| | | 13,681 |
| Changes in fair value of financial instruments: | | |
| Changes in fair value of convertible debentures | (viii) | 3,123 |
| Changes in fair value of interest rate swap | (x) | 81 |
| Changes in fair value of LTIP option component | (vii) | (1,387) |
| Changes in fair value of Class B Units | (ix) | (2,369) |
| | | (552) |
| Direct operating, general, administrative and trust expenses | (ii) | (323) |
| Deferred taxes | (xi) | 13,139 |
| Loss for the year, as reported under IFRS | | (61,948) |
| Other comprehensive loss, as reported under CGAAP | | (4,631) |
| Decreases to reported amount: | | |
| Reversal of non-controlling interest | (ix) | (65) |
| Changes in fair value of interest rate swap | (x) | (81) |
| Unrealized foreign exchange loss on translation of foreign operations | (i), (iii) | (379) |
| Other comprehensive loss, as reported under IFRS | | (5,156) |
| Total comprehensive income (loss) | | $ (67,104) |

[1] Upon finalizing the IFRS adjustments, the amounts previously reported in the March 31, 2011 condensed consolidated interim financial statements were adjusted. The loss for the year was reduced from $63,419 to $61,948 and total comprehensive loss was reduced from $68,575 to $67,104.

## 30. Explanation of transition to IFRS (continued):

(d) Notes to the reconciliations:

(i) Fair value as deemed cost:

At the Transition Date, the Trust has elected to apply the fair value as deemed cost election to PP&E. The fair value of PP&E, as at January 1, 2010, is assessed at $2,361,849, which resulted in an increase to the CGAAP carrying value on the Transition Date of $78,328.

Fair values were determined by the following approaches:

- Consideration of recent prices of similar properties within similar market areas;

- Discounted cash flow analysis which is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions on the valuation date less future cash outflows in respect of such leases discounted generally over a term of 15 years for long-term care properties and 25 years for retirement homes; and

- The direct capitalization method, which is based on the conversion of normalized earnings into an expression of market value. The normalized net income for the year is divided by an overall capitalization rate (inverse of an earnings multiplier).

Overall, the capitalization rates ranged from 7.5% to 12.3% with an average rate for the portfolio of approximately 8.9%.

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

## 30. Explanation of transition to IFRS (continued):

The table below provides details of the average capitalization rates for Retirement and Long-Term Care segments as at January 1, 2010:

| | Internal valuations | External valuations |
|---|---|---|
| Canadian Retirement Operations: | | |
| Weighted average capitalization rate | 9.2% | 8.8% |
| Range | 8.2% - 12.3% | 7.5% - 10.3% |
| Canadian Long-Term Care Operations: | | |
| Weighted average capitalization rate | 8.5% | 8.4% |
| Range | 8.5% | 8.3% - 8.5% |
| United States Operations: | | |
| Weighted average capitalization rate | 8.6% | 8.7% |
| Range | 7.5% - 9.3% | 8.5% - 9.3% |

In the valuation process of our PP&E assets, external appraisals were used for approximately 20% of the properties with the remaining 80% being valued internally.

The internal valuation process included the combination of a direct capitalization income approach and discounted cash flow calculations.

- The direct capitalization income approach determined fair value by applying a capitalized rate to the stabilized net operating income, which incorporates allowances for vacancies and management fees. The resulting capitalized value was further adjusted, where appropriate, for extraordinary costs to stabilize the income and capital expenditures.

- The discounted cash flow approach was used to determine the fair value of Ontario Class B and Class C LTC properties due to the redevelopment requirements under the new LTC legislation; certain properties subject to realty tax abatement contracts and properties in lease-up. The discounted cash flow methodology was used to derive the value of the capital funding subsidy related to our Class A LTC properties in Ontario.

**30. Explanation of transition to IFRS (continued):**

Qualified independent valuators were used for the external valuation process. Property values were based on:

- available market evidence of prices of similar properties within similar market areas; and

- rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet date, less future cash outflows in respect of such leases.

As a result of this election, depreciation and amortization adjustments (with respective foreign exchange impact on assets held in United States Operations) to the carrying values of PP&E and intangible assets, reversal of impairment under CGAAP and remeasurement of gain on sale of assets are also reflected in the tables under notes 30(a), 30(b) and 30(c).

(ii) Borrowing cost and pre-operating losses:

Under CGAAP, the Trust's policy was to capitalize borrowing costs and pre-operating losses to the date the property is stabilized. Under IFRS, Chartwell's policy is only to capitalize borrowing costs directly associated with the construction of qualifying assets during the development period.

At the Transition Date, there is no impact of the change in policy as the deemed cost election was applied to properties. Subsequent to January 1, 2010, Chartwell has derecognized only the borrowing costs on qualifying assets and pre-operating losses that were capitalized under CGAAP subsequent to properties becoming available for use, as reflected in the table under note 30(c).

(iii) Resident contracts, below-market land leases and PILOT:

Under CGAAP resident contracts, below-market land leases and PILOT were recognized as separate intangible assets. As a result of transitioning to IFRS, they are now accounted for as components of the building asset. The value of these components transferred from intangibles to properties at the Transition Date is $22,127.

**30. Explanation of transition to IFRS (continued):**

This reclassification is also reflected in the table under note 30(b) as at December 31, 2010.

(iv) Business combinations:

The Trust has applied the business combination exemption in IFRS 1 to not apply IFRS 3 (revised), Business Combination ("IFRS 3"), retrospectively to past business combinations. Accordingly, the Trust has not restated business combinations that took place prior to the Transition Date and no adjustments have been required to exclude the recognition of assets or liabilities under CGAAP that do not qualify for recognition under IFRS.

Under CGAAP, if an investment in a subsidiary is acquired through two or more acquisitions (step acquisition), the interest in the identifiable assets and liabilities are determined separately at each acquisition date and are not subsequently revalued.

Under IFRS 3, if the business combination is achieved in steps, the previously held equity interest is remeasured to the acquisition date fair value and any resulting gain or loss is recognized in profit or loss. Transaction costs incurred in a business combination (previously capitalized under CGAAP) are now expensed through profit or loss under IFRS.

Adjustments to all acquisitions that occurred as at December 31, 2010 are reflected in the tables under notes 30(b) and 30(c).

(v) Employee benefits:

The Trust has elected to recognize all cumulative unrecognized actuarial gains and losses that existed at the Transition Date in opening retained earnings for all its employee benefit plans. The impact of this election is shown in table 30(a).

The Trust has also elected to recognize all actuarial gains and losses immediately in other comprehensive income without recycling to profit or loss in subsequent periods. As a result, actuarial gains and losses are not amortized to profit or loss but rather are recorded directly to other comprehensive loss at the end of each period and reported in accumulated losses.

**30. Explanation of transition to IFRS (continued):**

(vi) Cumulative translation differences:

The Trust has elected to set the cumulative translation amount of $13,825 under CGAAP, which is included in accumulated other comprehensive income, to zero upon transition to IFRS. This has been reflected as a reclassification between accumulated other comprehensive income and accumulated losses and does not affect reported net equity.

Gains and losses on any subsequent disposals of U.S. operations would exclude translation differences that arose before the Transition Date to IFRS and the cumulative translation account would only include translation differences arising after the Transition Date.

(vii) Unit-based payment transactions:

The Trust has elected to apply IFRS 2, Share-based Payments, to equity instruments granted after November 7, 2002 which have not vested by the Transition Date.

Unit-based compensation cost under the LTIP and the Deferred Unit Plan have been reclassified from equity under CGAAP to a liability under IFRS as they are considered cash-settled plans. Under CGAAP, compensation cost was only measured once at grant date whereas under IFRS, the LTIP and the Deferred Unit Plan are required to be remeasured each reporting period until settled. As a result, at Transition Date Unitholders' equity under CGAAP has been adjusted for:

LTIP:

- $2,605 reclassification of the historical compensation cost previously recorded in equity; and
- $1,171 for the impact on accumulated losses from the cumulative fair value adjustment of the liability.

Deferred Unit Plan:

- The compensation expense of $644 has been adjusted from equity to liability.

**30. Explanation of transition to IFRS (continued):**

Subsequent reclassifications of the LTIP option component and Deferred Trust Units from equity to liability and the fair value remeasurement of these financial instruments are reflected in the tables under notes 30(b) and 30(c).

(viii) Convertible debentures:

IAS 32, Financial Instruments - Presentation ("IAS 32"), requires that options over puttable instruments be classified as a liability. As a result, at Transition Date, the equity portion of the convertible debenture of $14,878 recorded under CGAAP has been classified as a liability through a debit to equity under IFRS. The liability has been remeasured at fair value as the Trust has elected to designate the financial instrument at FVTPL under IFRS. The fair value measurement on January 1, 2010 has reduced the liability by $200.

Subsequent reversals of accretion and deferred financing costs recorded under CGAAP to fair value remeasurement of the financial instrument under IFRS are reflected in the tables under notes 30(b) and 30(c).

(ix) Class B Units:

Under IAS 32, Class B Units are considered puttable instruments and are classified as financial liabilities in the consolidated financial statements of the Trust. This has resulted in a movement from non-controlling interest under CGAAP to liability under IFRS of $7,813 at the Transition Date and $5,429 at December 31, 2010.

As the Trust has elected to designate this financial instrument at FVTPL under IFRS, the fair value measurement of the liability is reflected in the tables under notes 30(b) and 30(c). Distributions of Class B Units are now reclassified as interest expense recorded in finance costs under IFRS.

(x) Cash flow hedges:

IFRS requires that only hedging relationships that satisfy the hedge accounting criteria under IAS 39 as of the Transition Date be reflected as hedges.

**30. Explanation of transition to IFRS (continued):**

The Trust's current interest rate swap agreement does not qualify for hedge accounting under IFRS. As at the Transition Date, the swap has been de-designated for hedge accounting. This has resulted in a transfer of $1,218 to accumulated losses from accumulated other comprehensive income and thus, does not affect net reported equity.

The effective portion of the swap contract is also reclassified from other comprehensive loss to profit or loss as reflected in the tables under notes 30(b) and 30(c).

(xi) Deferred tax:

The increase in deferred tax liability under IFRS compared with CGAAP primarily relates to the increased carrying values of Chartwell's PP&E and the increase in the tax rate being applied to temporary differences of 46.4%, the applicable tax rate of the Trust, excluding the impact of future distributions.

The tables under notes 30(b) and 30(c) reflect the deferred tax impact of items described in (i) to (x) above.

(xii) Discontinued operations:

Under IFRS, a discontinued operation represents a separate major line of business or geographical area of operations or subsidiaries acquired exclusively with a view to resale.

The discontinued operations presented in 2010 under CGAAP represented either an individual property or group of properties. As a result, there are reclassifications to present these operations within continuing operations in our 2010 statements of comprehensive income (loss) under IFRS. The impact of this change is reflected in the table under note 30(c).

(e) Estimates:

Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Trust under CGAAP are consistent with their application under IFRS.

**30. Explanation of transition to IFRS (continued):**

(f) Loss per unit:

The Trust Units are considered puttable instruments that can be presented within equity under IAS 32. However, under IAS 33, Earnings Per Share, the Trust Units are not considered ordinary units and, therefore, an income/loss per unit calculation may not be presented.

(g) IFRS impact on the consolidated statements of cash flows:

The IFRS adjustments made to the comparative consolidated statement of comprehensive income (loss) for the year ended December 31, 2010 (as described above) have also been made to the consolidated statements of cash flows as at the same date. There were no other significant IFRS transition differences noted.