

Consolidated Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

Years ended December 31, 2012 and 2011



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Retirement Residences

We have audited the accompanying consolidated financial statements of Chartwell Retirement Residences, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, the consolidated statements of comprehensive loss, unitholders' equity and cash flows for the years then ended, 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 Retirement Residences as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants

March 6, 2013  
Toronto, Canada

# CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets  
(In thousands of Canadian dollars)

December 31, 2012 and 2011

	Note	2012	2011
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 5,309	\$ 10,687
Trade and other receivables		20,296	13,144
Mezzanine loans receivable	6	–	9,653
Capital funding receivable	7	4,396	3,743
Other assets	8	28,318	27,153
Assets held for sale	9	97,404	–
<b>Total current assets</b>		<b>155,723</b>	<b>64,380</b>
Non-current assets:			
Other assets	8	7,186	7,344
Capital funding receivable	7	56,661	55,377
Intangible assets	5	50,775	52,879
Property, plant and equipment ("PP&E")	4	2,734,943	2,526,541
<b>Total non-current assets</b>		<b>2,849,565</b>	<b>2,642,141</b>
<b>Total assets</b>		<b>\$ 3,005,288</b>	<b>\$ 2,706,521</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	10(b)	\$ 77,000	\$ 53,000
Accounts payable and other liabilities	12	121,072	112,497
Distributions payable		7,800	6,596
Mortgages payable	10(a)	282,223	205,373
Convertible debentures	11	–	76,425
Deferred consideration on business combinations	13	520	5,328
Liabilities held for sale	9	99,969	–
<b>Total current liabilities</b>		<b>588,584</b>	<b>459,219</b>
Non-current liabilities:			
Mortgages payable	10(a)	1,697,127	1,670,893
Convertible debentures	11	147,150	–
Class B Units of Chartwell Master Care LP ("Class B Units")	14	18,302	14,292
Deferred tax liabilities	25	–	26,325
<b>Total non-current liabilities</b>		<b>1,862,579</b>	<b>1,711,510</b>
<b>Total liabilities</b>		<b>2,451,163</b>	<b>2,170,729</b>
Unitholders' equity	15	554,125	535,792
Commitments and contingencies	26		
Subsequent events	29		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 3,005,288</b>	<b>\$ 2,706,521</b>

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Huw Thomas" \_\_\_\_\_ Trustee      "Sidney Robinson" \_\_\_\_\_ Trustee

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2012 and 2011

	Note	2012	2011
<b>Revenue:</b>			
Resident		\$ 874,503	\$ 750,634
Management and other fees		7,725	3,137
Mezzanine loan interest		1,493	1,601
		<u>883,721</u>	<u>755,372</u>
<b>Expenses:</b>			
Direct operating		615,314	532,132
General, administrative and trust		26,166	24,758
		<u>641,480</u>	<u>556,890</u>
Income before the undernoted <sup>(1)</sup>		242,241	198,482
Finance costs	23	127,167	103,331
Property lease expense		2,504	2,420
Other expense (income)	22	20,294	(608)
Depreciation of PP&E	4	200,383	170,844
Amortization of intangible assets	5	3,537	2,555
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	24	49,379	(2,932)
Loss before income taxes		(161,023)	(77,128)
Income tax expense (benefit):	25		
Current		296	330
Deferred		(21,977)	(14,127)
		<u>(21,681)</u>	<u>(13,797)</u>
Loss for the year		(139,342)	(63,331)
<b>Other comprehensive income (loss):</b>			
Unrealized foreign currency gain (loss) on translation of foreign operations		(1,504)	1,184
<b>Total comprehensive loss</b>		<b>\$ (140,846)</b>	<b>\$ (62,147)</b>

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

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2012 and 2011

2012	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, 2012	\$ 1,456,238	\$ 25,476	\$ (19,865)	\$ (397,800)	\$ (3,972)	\$ (529,176)	\$ 4,891	\$ 535,792
Loss for the year	-	-	-	(139,342)	-	-	-	(139,342)
Other comprehensive loss	-	-	-	-	(1,504)	-	-	(1,504)
Distributions to unitholders	-	-	-	-	-	(87,549)	-	(87,549)
Trust Units issued in exchange of subscription receipts, net of tax and transaction costs	229,505	-	-	-	-	-	-	229,505
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	15,791	-	-	-	-	-	-	15,791
Trust Units issued on exchange of Class B Units	24	-	-	-	-	-	-	24
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	1,127	(51)	(668)	-	-	-	-	408
Interest on LTIP receivable	-	-	(200)	-	-	-	-	(200)
Distributions applied against LTIP receivable	-	-	1,200	-	-	-	-	1,200
<b>Unitholders' equity, December 31, 2012</b>	<b>\$ 1,702,685</b>	<b>\$ 25,425</b>	<b>\$ (19,533)</b>	<b>\$ (537,142)</b>	<b>\$ (5,476)</b>	<b>\$ (616,725)</b>	<b>\$ 4,891</b>	<b>\$ 554,125</b>

During the year ended December 31, 2012, distributions were declared and paid at \$0.045 per unit per month. In the first two months of 2013, distributions were declared at \$0.045 per unit per month totalling \$15,626.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2012 and 2011

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)
Trust Units issued under the DRIP	15,075	-	-	-	-	-	-	15,075
Trust Units issued on exchange of Class B Units	272	-	-	-	-	-	-	272
Trust Units issued under LTIP, net of cancellations and Trust Units released on settlement of LTIP receivable	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.

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2012 and 2011

	Note	2012	2011
Cash provided by (used in):			
Operating activities:			
Loss for the year		\$ (139,342)	\$ (63,331)
Items not affecting cash:			
Depreciation and amortization		203,920	173,399
Other expense (income)	22	20,294	(608)
Finance costs	23	127,167	103,331
Transaction costs		(12,995)	(1,280)
Mezzanine loan interest		(1,493)	(1,601)
Non-cash compensation expense		2,282	1,993
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	24	49,379	(2,932)
Current income taxes		296	330
Deferred income taxes		(21,977)	(14,127)
Change in trade and other receivables		(13,215)	3,897
Change in other assets		(1,415)	(3,977)
Change in accounts payable and other liabilities		1,293	12,266
		214,194	207,360
Interest received		5,673	5,418
Interest paid		(116,731)	(101,450)
Income taxes paid		(296)	(330)
Net cash provided by operating activities		102,840	110,998
Financing activities:			
Proceeds from mortgage financing, net of repayments on maturity		16,083	67,713
Changes to Credit Facility		24,000	2,000
Scheduled mortgage principal repayments		(47,049)	(40,731)
Net additions to finance costs		(4,469)	(2,809)
Trust Units issued pursuant to:			
Public offerings		204,287	–
Issue costs		(8,776)	–
Issue of convertible debentures		135,000	–
Redemption of convertible debentures		(75,000)	–
Convertible debenture issuance costs		(5,363)	–
Distributions paid		(69,354)	(61,357)
Deposits and repayments received under LTIP		663	478
Net cash provided by (used in) financing activities		170,022	(34,706)
Investing activities:			
Acquisition of assets under business combinations		(194,466)	(40,028)
Payment of deferred consideration on business combinations		(5,000)	(2,500)
Additions to PP&E and intangible assets		(91,827)	(73,248)
Development costs allocable to capital funding receivable		(5,749)	–
Proceeds from capital funding receivable		3,812	3,537
Proceeds from disposal of PP&E		593	21,718
Mezzanine loan collections		15,158	8,187
Change in restricted cash		(43)	1,783
Net cash used in investing activities		(277,522)	(80,551)
Decrease in cash and cash equivalents		(4,660)	(4,259)
Foreign exchange gain (loss) on U.S. dollar-denominated cash		(718)	218
Cash and cash equivalents, beginning of year		10,687	14,728
Cash and cash equivalents, end of year		\$ 5,309	\$ 10,687

See accompanying notes to consolidated financial statements

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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Chartwell Retirement Residences ("Chartwell"), previously Chartwell Seniors Housing REIT, is an unincorporated open-ended trust governed by the laws of the Province of Ontario and created as of July 7, 2003 and subsisting under the Declaration of Trust. Chartwell's head office is located at 100 Milverton Drive, Suite 700, Mississauga, Ontario, L5R 4H1. 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 of CSH Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario, Canada, which in turn owns 66.8% 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. Chartwell also has direct ownership of 33.2% of Class A Units of Master LP.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of Chartwell. Its activities are financed through equity contributed by Chartwell, 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 of Chartwell are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2012. On March 6, 2013, the Board of Trustees authorized the financial statements for issue.



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 1. Basis of preparation (continued):

### (b) Functional currency:

These consolidated financial statements are presented in thousands of Canadian dollars, Chartwell'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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 the future financial year are included in the following notes:

- (i) Note 2(e) - Impairment;
- (ii) Note 2(m)(iii) - Revenue recognition - allowance for doubtful accounts;
- (iii) Note 3 - Acquisitions; and
- (iv) Note 12(c) - LTIP.

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 consolidated 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;
- (iii) Note 3 - Acquisitions; and
- (iv) Note 25 - Income taxes.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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, revenue and income and expenses of the jointly-controlled entities on a line-by-line basis.

#### (iii) Business combinations:

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 Chartwell's previously-held equity interest in the acquiree is remeasured to fair value through profit or loss.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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).

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

### (c) PP&E:

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

PP&E includes land, buildings, furniture, fixtures and equipment, which are measured at cost less accumulated depreciation and accumulated impairment losses.

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 Chartwell, 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:

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#### 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

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# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 and methods used are reviewed annually at year end 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 Chartwell 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 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 long term care 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) Other intangible assets:

Other intangible assets consist of the allocated cost of acquired operating leases of seniors housing properties, management contracts, 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.

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors 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.

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

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

### (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 Chartwell on terms that Chartwell would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

Chartwell 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.

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

The carrying amounts of the Chartwell's PP&E are assessed at each reporting date to determine if any events have occurred 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.



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

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 separate 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 government grants 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.

Capital funding grants for development of long term care properties that are received from the Government of Ontario, subsequent to construction, are present valued and recorded as capital funding receivable, with an offset to the cost of the related PP&E upon inception. These grants are received over time, the accretion of the receivables are recognized in profit or loss as other income over the life of the grant.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 Chartwell'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 receivables, mezzanine loans receivable and capital funding 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 Chartwell 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 dates, which are classified as non-current assets.

### (ii) Non-derivative financial liabilities:

Non-derivative financial liabilities primarily consist of accounts payable and accrued liabilities, 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 Chartwell'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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 Chartwell 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 Unit 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 unitholders' equity or in other comprehensive income (loss).

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.

Chartwell 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.

Chartwell 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 calculated using the effective interest rate method, distributions classified as interest expense under IFRS on Class B Units and subscription receipts, mark-to-market adjustments on mortgages payable and convertible debentures issuance costs.

### (m) Revenue recognition:

Chartwell 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 Chartwell 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 Chartwell 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 Chartwell and our assessment of the likelihood of collections.

### (iv) Fee revenue:

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



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

### (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 Chartwell.

### (o) Lease payments:

Chartwell maintains some properties in the United States that are classified as operating leases. These leased assets are not recognized in Chartwell'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 and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. 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 Chartwell'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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

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

In May 2011, the IASB issued IFRS 10, with further amendments issued in June and October 2012. 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 Chartwell'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, with further amendments issued in June 2012. IFRS 11 replaces the guidance in IAS 31, Interests in Joint Ventures ("IAS 31") and focuses 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 Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. It is expected that IFRS 11, when initially adopted, will have a significant impact on the Chartwell's financial statements as it had previously accounted for its interest in several properties using proportionate consolidation. However, Chartwell is not able at this time to estimate reasonably the impact that IFRS 11 will have on the consolidated financial statements.

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

In May 2011, the IASB issued IFRS 12, with further amendments issued in June 2012. 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 Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs. This new standard is effective for Chartwell'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 IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued amendments to IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has 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 Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 28 has not yet been determined.

### (vii) 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 other comprehensive income 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 Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 1 has not yet been determined.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

### (viii) 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 other comprehensive income (loss). 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 Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 19 has not yet been determined.

### (ix) Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7, Financial Instruments - Disclosures ("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 to IAS 32 and IFRS 7 has not yet been determined.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 2. Significant accounting policies (continued):

(x) Annual Improvements to IFRSs 2009-2011 Cycle - various standards:

The IASB issued its Annual Improvements to IFRSs - 2009-2011 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after Jan 1, 2013, with retrospective application. The new cycle of improvements contains amendments to the several standards including: IAS 1, IAS 16, IAS 32, and IAS 34. The amendments to the standards are effective for Chartwell'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.

## 3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2012:

On January 20, 2012, Chartwell acquired a 100% interest in the 70-suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum Seniors Holdings LP ("Spectrum") and its joint-venture partner. The purchase price before closing costs was \$15,500 and was settled through the assumption of debt of \$11,435, settlement of outstanding mezzanine loan of \$938, and settlement of outstanding accounts receivable of \$926, with the remaining balance, net of working capital adjustments, settled in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. Chartwell incurred acquisition-related costs of \$282, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Chartwell Select Georgian Traditions Retirement Residence has contributed revenue of \$2,288 and net loss of \$414 from the date of acquisition. The transaction was accounted for as a business combination under IFRS 3, Business Combinations ("IFRS 3").

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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### 3. Acquisitions (continued):

On April 1, 2012, Chartwell purchased a 50% interest in the 97-suite Renaissance Retirement Residence located in Kamloops, British Columbia from Spectrum. The purchase price before closing costs was \$7,525 and was settled through the assumption of debt of \$4,691, settlement of outstanding mezzanine loan of \$699, and settlement of outstanding accounts receivable of \$826, with the remaining balance, net of working capital adjustments, settled in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. Chartwell incurred acquisition-related costs of \$100, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Renaissance Retirement Residence has contributed revenue of \$816 and net loss of \$232 from the date of acquisition, at 50% ownership. The transaction was accounted for as a joint venture under IAS 31. Chartwell is proportionately consolidating this property.

On May 1, 2012, Chartwell and Health Care REIT Inc. ("HCN") completed the acquisition of a portfolio of 42 retirement communities (the "Properties") located in Ontario, Quebec, British Columbia and Alberta ("Maestro portfolio"). Under the terms of the purchase and sale agreement, Chartwell and HCN each acquired a 50% interest in 39 communities ("JV properties"). In addition, HCN acquired the three other communities ("HCN Properties"). Under the terms of the co-ownership agreement, Chartwell and HCN share equally in the risks and rewards of the investment in the JV properties. The co-ownership structure provides for major decisions to be made by a board comprised of an equal number of members from Chartwell and HCN. Dispute resolution and liquidity mechanisms are included.

Under the terms of the co-ownership agreement, the parties are subject, with limited exceptions, to certain non-competition restrictions within specified geographic zones surrounding the Properties. Chartwell and HCN have agreed to offer to each other the opportunity to co-invest in additional Canadian seniors housing properties within these geographic zones. In addition, HCN has granted Chartwell the option to purchase a 50% interest in the three HCN Properties at the higher of fair market value and HCN's investment in the HCN Properties during the term of the co-ownership agreement, provided that Chartwell continues to manage the HCN Properties.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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### 3. Acquisitions (continued):

The Properties will be managed by Chartwell pursuant to a management agreement, which provides for: (i) a base fee equal to 5% of gross revenue from each property; and (ii) an incentive fee equal to 10% for outperformance, or a reduction of 10% for underperformance, relative to approved annual operating targets, provided that the total management fee paid to Chartwell does not exceed 6% of gross revenue from the Properties and is not less than 4% of gross revenue from the Properties.

In respect of the three HCN Properties, the management agreement will have an initial term of three years, with one year renewal options at HCN's election. Both Chartwell and HCN have the right to terminate the management agreement on 180-days notice in respect of the HCN Properties. In respect of the JV properties, the management agreement will have an initial term of three years and will automatically renew for three-year terms provided that the co-ownership agreement remains in effect.

The 100% purchase price for the JV properties was \$843,815 and was settled by the assumption of mortgage debt of \$449,809, not including market-to-mark adjustments of \$20,541, with the remaining balance, net of working capital adjustments, settled in cash. Chartwell's share of the net purchase price was partially funded from the proceeds of subscription receipts (note 15). This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. This transaction was accounted for as a business combination under IFRS 3. Chartwell is proportionately consolidating these assets.

In connection with the Maestro portfolio acquisition, Chartwell incurred acquisition-related costs of \$11,272. These costs have been expensed in other expense (income) in the consolidated statements of comprehensive loss.

In the eight-month period ended December 31, 2012, the JV properties contributed revenue of \$61,005 and net loss of \$14,222 at 50% ownership. If the acquisition had occurred at January 1, 2012, extrapolating the results of this portfolio for the eight-month period ended December 31, 2012, management estimates that the revenue would have been \$91,508 and the net loss for the period would have been \$21,333 at 50% ownership.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

### 3. Acquisitions (continued):

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred at Chartwell's ownership, which may be adjusted in future periods:

Date of acquisition Segment	January 20, 2012	April 1, 2012	May 1, 2012	
	Canadian Retirement Operations			
Location	Province of Ontario (70 suites)	Province of British Columbia (97 suites)	Various provinces (7,662 suites)	Total
PP&E	\$ 15,500	\$ 7,525	\$ 432,178	\$ 455,203
Other liabilities	(423)	(121)	(503)	(1,047)
Mortgages assumed	(11,435)	(4,691)	(235,175)	(251,301)
Net assets acquired	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855
Discharge of mezzanine loan receivable	\$ 938	\$ 699	\$ -	\$ 1,637
Settlement of accounts receivable	926	826	-	1,752
Cash consideration	1,778	1,188	196,500	199,466
Total consideration transferred	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855

#### (b) Acquisitions during the year ended December 31, 2011:

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

Property	Ownership interest	Date acquired
Chartwell Classic Robert Speck Seniors Housing	33.3%	April 1, 2011
Chatsworth Retirement Suites and Bungalows <sup>(1)</sup>	50.0%	May 10, 2011
ING Portfolio <sup>(1)</sup>	50.0%	November 1, 2011

<sup>(1)</sup>Upon completion of this acquisition, Chartwell owns 100% of this portfolio.



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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### 3. Acquisitions (continued):

During the year ended December 31, 2011, Chartwell acquired varying interests in 17 seniors housing communities (3,164 suites). The following table summarizes the allocation of the purchase price to each major class of assets acquired and liabilities assumed at the date of acquisition:

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PP&E	\$ 199,474
Other assets	507
Mortgages assumed	(153,158)
<b>Net assets acquired</b>	<b>\$ 46,823</b>
Discharge of mezzanine loans receivable	\$ 2,113
Settlement of accounts receivable	1,087
Cash consideration	40,028
Gain recorded on remeasurement of previously held equity interest on acquisition	3,595
<b>Total consideration</b>	<b>\$ 46,823</b>

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# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
<b>Cost or deemed cost</b>						
Balance, January 1, 2011	\$ 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
Additions	–	29,085	13,964	47,717	507	91,273
Additions through business combinations	45,966	394,254	9,845	–	5,138	455,203
Disposals	–	–	–	–	(268)	(268)
Derecognition	–	(7,633)	(3,012)	–	–	(10,645)
Transfers <sup>(1)</sup>	6,219	66,665	4,976	(78,873)	–	(1,013)
Transfers to assets held for sale	(10,228)	(107,015)	(1,945)	–	–	(119,188)
Exchange differences on translation of United States Operations	(2,148)	(18,739)	(577)	(26)	(143)	(21,633)
Balance, December 31, 2012	\$ 334,299	\$ 2,745,654	\$ 86,878	\$ 26,095	\$ 23,774	\$ 3,216,700
<b>Accumulated depreciation and impairment losses</b>						
Balance, January 1, 2011	\$ –	\$ 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
Depreciation	–	181,577	18,806	–	–	200,383
Derecognition	–	(7,633)	(3,012)	–	–	(10,645)
Transfers to assets held for sale	–	(21,807)	(1,314)	–	–	(23,121)
Impairment	–	20,661	–	542	–	21,203
Exchange differences on translation of United States Operations	–	(2,234)	(259)	–	–	(2,493)
Balance, December 31, 2012	\$ –	\$ 439,535	\$ 39,800	\$ 2,422	\$ –	\$ 481,757
<b>Carrying amounts</b>						
Balance, December 31, 2011	\$ 294,490	\$ 2,120,066	\$ 38,048	\$ 55,397	\$ 18,540	\$ 2,526,541
Balance, December 31, 2012	334,299	2,306,119	47,078	23,673	23,774	2,734,943

<sup>(1)</sup>For the year ended December 31, 2012, Chartwell transferred \$1,013 from Properties under development to Intangibles (note 5).

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

Chartwell capitalized \$1,843 of borrowing costs related to development projects under construction for the year ended December 31, 2012, at an average capitalization rate of 5.33%. During the year ended December 31, 2011, Chartwell capitalized \$1,303 of borrowing costs related to development projects under construction at an average capitalization rate of 5.43%.

The following are the transactions that occurred during the year ended December 31, 2012:

Chartwell disposed of vacant land in Magog, Quebec for \$537 on April 5, 2012. As a result of this transaction, Chartwell recorded a gain of \$269 included in other expense (income) (note 22).

Chartwell purchased two parcels of land from a company controlled by one of the executives of Chartwell. The total consideration was \$507 and the executive was not involved in the approval process to purchase the land.

Chartwell completed an assessment of PP&E for the year ended December 31, 2012 to determine if any events have occurred that would indicate possible impairment of PP&E. In the case of three properties, included in the Canadian retirement operations, indicators existed based on operational results and management forecasts, that the asset's recoverable amount may be lower than its carrying amount. Chartwell completed an assessment of the recoverable amount of these assets or cash generating units comparing the higher of (a) the fair value less costs to sell and (b) value in use to the carrying value. On assessment it was determined that the fair value less costs to sell would be used to evaluate the recoverable amount. Chartwell determines the fair value less cost to sell based on historical transactions completed and transactions that have occurred in the market. As the result of the assessment completed on these properties and the write-off of certain development costs, an impairment loss of \$21,203 was recognized in other expense (income) (note 22).

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

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

- (a) Chartwell purchased a parcel of development land in Hamilton, Ontario for cash consideration of \$1,875.
  
- (b) On July 31, 2011, Chartwell disposed of one retirement community, the 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, Chartwell recorded a gain on sale of \$5,926 included in other expense (income) (note 22).

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 5. Intangible assets:

	Licenses	Other <sup>(1)</sup>	Total
<b>Cost</b>			
Balance, January 1, 2011	\$ 44,334	\$ 13,325	\$ 57,659
Additions	–	3,031	3,031
Disposals	–	(524)	(524)
Exchange differences on translation of United States Operations	–	302	302
Balance, December 31, 2011	44,334	16,134	60,468
Additions	–	554	554
Transfers	–	1,013	1,013
Derecognition	–	(2,935)	(2,935)
Exchange differences on translation of United States Operations	–	(307)	(307)
Balance, December 31, 2012	\$ 44,334	\$ 14,459	\$ 58,793
<b>Accumulated amortization and impairment losses</b>			
Balance, January 1, 2011	\$ –	\$ 4,919	\$ 4,919
Amortization	–	2,555	2,555
Exchange differences on translation of United States Operations	–	115	115
Balance, December 31, 2011	–	7,589	7,589
Amortization	–	3,537	3,537
Derecognition	–	(2,935)	(2,935)
Exchange differences on translation of United States Operations	–	(173)	(173)
Balance, December 31, 2012	\$ –	\$ 8,018	\$ 8,018
<b>Carrying amounts</b>			
Balance, December 31, 2011	\$ 44,334	\$ 8,545	\$ 52,879
Balance, December 31, 2012	44,334	6,441	50,775

<sup>(1)</sup> Other intangible assets consist of the allocated cost of acquired operating leases of senior housing properties, below-market management contracts and software costs.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 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 ("HBR") 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:

		Net balance, principal amount less lending expenses	
	Contractual interest rate	2012	2011
Gross value of mezzanine loans receivable	10% - 14%	\$ 6,426	\$ 23,243
Fees recorded as a reduction of mezzanine loan balances		(384)	(480)
Provision for mezzanine loans receivable		(6,042)	(13,110)
<b>Net book value of mezzanine loans receivable</b>		<b>\$ -</b>	<b>\$ 9,653</b>

On October 16, 2012, Spectrum completed sales of two of its retirement residences to a third party and paid \$16,618 to Chartwell in full settlement of its obligations. The parties provided full and final releases to each other with respect to their obligations under various settlement, mezzanine loan, and management and development agreements. As a result, for the year ended December 31, 2012, Chartwell recorded a reduction of carrying balances of its mezzanine loans receivable of \$4,435, and reversal of previously recorded impairment provisions for mezzanine loans and accounts receivable of \$9,399 (note 22). The remaining proceeds were recorded as mezzanine loan interest, management fee income and reimbursements of certain expenses, as applicable.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 6. Mezzanine loans receivable (continued):

During the year ended December 31, 2012, two mezzanine loans were settled as partial consideration of the acquisition of properties (note 3).

During the year ended December 31, 2012 one additional mezzanine loan in the amount of \$2,607 was paid in cash.

## 7. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	Amount
Balance, January 1, 2011	\$ 62,657
Capital funding applied to receivable in the year	(3,537)
Balance, December 31, 2011	59,120
Development costs allocable to capital funding receivable	5,749
Capital funding applied to receivable in the year	(3,812)
Balance, December 31, 2012	\$ 61,057

The capital funding receivable of \$61,057 (2011 - \$59,120) represents the present value of the funding receivable from the Government of Ontario in respect of 14 long term care properties. The weighted average remaining term of this funding is approximately 12.6 years with the discount rate used based on applicable Ontario Government Bond Rates. 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 8. Other assets:

	2012	2011
Prepaid expenses and deposits	\$ 12,939	\$ 9,292
Restricted cash	13,952	11,625
Lease purchase option	4,253	4,362
Other assets	4,360	9,218
	<u>\$ 35,504</u>	<u>\$ 34,497</u>
Current	\$ 28,318	\$ 27,153
Non-current	7,186	7,344
	<u>\$ 35,504</u>	<u>\$ 34,497</u>

Restricted cash relates primarily to capital expenditure reserves required in the United States for certain mortgages and an operating income deposit related to the acquisition of the Maestro portfolio.

## 9. Assets and liabilities held for sale:

On May 22, 2012, Chartwell and joint venture partner entered into agreements to sell five properties in the United States. The sale price for 100% interest is \$288,521 (U.S. \$290,000). The purchaser is expected to assume debt with an outstanding balance of \$197,028 (U.S. \$198,038) as of December 31, 2012 with the balance, net of working capital adjustments and holdbacks, settled in cash. Chartwell's interest in these properties is 50%. This transaction closed on February 13, 2013 (note 29).

The following table summarizes the significant assets and liabilities held for sale on December 31, 2012:

Assets classified as held for sale:	
Trade and other receivables	\$ 445
Other assets	892
PP&E, net	96,067
	<u>\$ 97,404</u>
Liabilities classified as held for sale:	
Accounts payable and other liabilities	\$ 2,312
Mortgages payable	97,657
	<u>\$ 99,969</u>



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 9. Assets and liabilities held for sale (continued):

On December 19, 2012, Chartwell announced that the previously-announced agreement to sell the 100% ownership in six U.S. properties, aggregating 1,221 independent living suites located in Michigan, Tennessee, Oklahoma, Alabama and Ohio, to Harvest Facility Holdings LP (the "Purchaser") had been terminated by the Purchaser. As a result Chartwell will continue to own these properties. As at December 31, 2012, Chartwell has determined these properties no longer meet the criteria to be treated as assets held for sale. Chartwell recorded PP&E amortization of \$4,184 when these properties were removed from assets held for sale.

## 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 Chartwell's exposure to interest rates, foreign currency and liquidity risk see note 19.

The mortgages payable as at December 31, 2012 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt	Weighted average interest rate of maturing debt %
2013	\$ 48,385	\$ 236,463	\$ 284,848	14%	4.83%
2014	42,895	215,496	258,391	13%	4.44%
2015	40,292	263,113	303,405	15%	4.85%
2016	34,982	290,389	325,371	16%	6.12%
2017	25,464	253,722	279,186	14%	5.64%
2018	26,147	41,359	67,506	3%	5.43%
2019	26,184	10,591	36,775	2%	6.07%
2020	26,227	48,899	75,126	4%	4.35%
2021	24,076	50,150	74,226	4%	4.59%
2022	20,388	54,567	74,955	4%	3.61%
2023	16,402	14,224	30,626	2%	6.07%
2024	12,277	17,394	29,671	2%	7.13%
Thereafter	114,155	21,384	135,539	7%	4.97%
	<u>\$ 457,874</u>	<u>\$ 1,517,751</u>	1,975,625	<u>100%</u>	
Mark-to-market adjustments on acquisition			20,477		
Financing costs			(16,752)		
			<u>\$ 1,979,350</u>		
Current			\$ 282,223		
Non-current			1,697,127		
			<u>\$ 1,979,350</u>		

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 10. Secured debt (continued):

	2012	2011
Mortgages at fixed rates:		
Mortgages (principal)	\$1,807,985	\$1,784,835
Interest rates	2.10% - 10.00%	2.50% - 10.00%
Weighted average interest rate	5.31%	5.54%
Mortgages at variable rates:		
Mortgages (principal)	\$167,640	\$95,698
Interest rates	Lenders COF plus 2.00% to prime plus 2.50%	Lenders COF plus 2.00% to prime plus 2.50%
Weighted average interest rate	4.42%	4.37%
Blended weighted average rate	5.23%	5.48%

### (b) Credit Facility:

Chartwell has arranged for an \$85,000 Credit Facility. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.25% or the applicable bankers' acceptance rate plus 2.25%. 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. The Credit Facility was entered into on June 23, 2012 and now matures on June 22, 2013. At December 31, 2012, the maximum available borrowing capacity under the Credit Facility was \$85,000 (2011 - \$85,000) based on the security provided. Of this capacity, \$2,807 (2011 - \$2,253) has been allocated to support various letters of credit issued by Chartwell. As at December 31, 2012, \$77,000 (2011 - \$53,000) was outstanding under the Credit Facility.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 11. Convertible debentures:

Chartwell 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 5.7% convertible debentures at December 31, 2012, was \$109.00.

Chartwell has the following series of convertible debentures outstanding:

	2012	2011
5.9% convertible debentures:		
Principal	\$ –	\$ 75,000
Fair value	–	76,425
5.7% convertible debentures:		
Principal	\$ 135,000	\$ –
Fair value	147,150	–

On March 9, 2012, Chartwell issued \$135,000 of convertible, unsecured, subordinated debentures ("5.7% convertible debentures") pursuant to a prospectus dated March 2, 2012, for cash proceeds of \$129,637, net of issuance costs.

On March 16, 2012, Chartwell redeemed the 5.9% convertible debentures totalling \$75,000 for face value plus accrued interest of \$1,649 for \$76,649 in cash.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 11. Convertible debentures (continued):

The 5.7% convertible debentures bear interest at an annual rate of 5.7%, payable semi-annually in arrears on March 31 and September 30 in each year, and commenced on September 30, 2012. Each 5.7% convertible debenture is convertible into freely-tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018, and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.7% convertible debentures, at a conversion price of \$11.00 per Trust Unit. Holders converting their 5.7% 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 5.7% 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 Chartwell Units. In the event Chartwell has suspended regular distributions, then the 5.7% 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.

The 5.7% convertible debentures are not redeemable by Chartwell before March 31, 2015, except in the event of satisfaction of certain conditions after a change in control has occurred. On or after March 31, 2015, but prior to March 31, 2017, the 5.7% 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 Chartwell Indenture, is not less than 125% of the conversion price. On or after March 31, 2017, the 5.7% 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 5.7% 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 Chartwell 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 5.7% convertible debentures trustee to satisfy the obligations to pay interest on the 5.7% convertible debentures.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 12. Accounts payable and other liabilities:

	Note	2012	2011
Accounts payable and accrued liabilities		\$ 94,720	\$ 93,326
Resident deposits		3,852	4,014
Deferred revenue		9,786	6,897
Deferred Trust Units	(a)	5,292	3,013
Restricted Trust Units	(b)	732	676
Fair value of LTIP option component	(c)	6,479	3,731
Other liabilities		211	840
		\$ 121,072	\$ 112,497

### (a) Deferred Unit Plan:

Chartwell 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. Chartwell 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, of Chartwell Units as defined in the plan, 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 Trust 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. Deferred Trust Units values are initially calculated based on the grant date fair value. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The liability is remeasured to fair value at each reporting date until the liability is settled. Distributions on Deferred Trust Units are included in general, administrative and trust expenses in profit or loss. The liability is released to equity after retirement of the director. The market ask price of Trust Units as at December 31, 2012 was \$10.90.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

The following table summarizes the Deferred Trust Unit activity:

	Units outstanding	Amount
Balance, January 1, 2011	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
Units granted	107,668	1,040
Reinvested distributions	23,287	221
Change in fair value	–	1,018
Balance, December 31, 2012	485,505	\$ 5,292

### (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 Trust Units, as defined in the plan, on the date distributions are paid. Restricted Units are recognized as compensation expense over the service period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is remeasured to fair value at each reporting date until the liability is settled.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

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 adjusted funds from operations targets over a three-year period.

During the year ended December 31, 2012, 85,841 notional Trust Units were issued, 15,269 units were cancelled, 13,499 units were issued related to reinvested distributions, and 97,734 units vested and were paid out. At December 31, 2012, 154,346 notional Trust Units remained outstanding.

### (c) LTIP (note 15(b)):

Chartwell's recourse on the LTIP receivable is limited to Chartwell 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 surrender the LTIP Units in full satisfaction of the LTIP receivable. The fair value of this option is measured using the Monte Carlo simulation method.

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

	2012	2011
Expected volatility	13.7 - 17.1%	18.0 - 23.0%
Risk free rate	1.5 - 2.2%	1.2 - 2.2%
Distribution yield	4.0 - 4.9%	5.1 - 6.2%

## 13. Deferred consideration on business combinations:

Deferred consideration on business combinations relates to one (2011 - two) previously completed property acquisitions.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 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. Chartwell 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 ask price of Chartwell Units as at December 31, 2012 was \$10.90 (2011 - \$8.50).

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 costs in the consolidated statements of comprehensive loss.

	Units outstanding	Amount
Balance, January 1, 2011	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
Exchange of Class B Units into Trust Units	(2,397)	(24)
Change in fair value	–	4,034
Balance, December 31, 2012	1,679,128	\$ 18,302



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 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
- (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 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, January 1, 2011	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
Trust Units issued under DRIP	1,703,174	15,791
Trust Units issued in exchange of Class B Units	2,397	24
Trust Units released on settlement of LTIP receivable	131,533	1,127
Trust Units issued in exchange of subscription receipts, net of tax and transaction costs (d)	24,913,125	229,505
Balance, December 31, 2012	169,441,855	\$ 1,702,685

### (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 Trust Units under the LTIP are applied as payments, first of interest and then of 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 Trust LTIP Units in satisfaction of the outstanding receivable amounts. Chartwell's recourse is limited to 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,207,464 (2011 - 2,192,845) were issued and 3,693,426 (2011 - 3,708,045) were available to be issued at December 31, 2012.

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
Balance, January 1, 2011	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
Trust Units issued under LTIP	293,042	2,740
Trust Units surrendered for cancellation under LTIP	(146,890)	(1,664)
Trust Units released on settlement of LTIP receivable	(131,533)	(1,127)
Balance, December 31, 2012	2,207,464	\$ 25,425

The compensation expense attributable to the LTIP of \$240 for the year ended December 31, 2012 (2011 - \$358) 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%.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

### (d) Subscription receipts:

In March 2012, Chartwell completed a bought deal offering of 24,913,125 subscription receipts at a price of \$8.20 per subscription receipt for gross cash proceeds of \$204,287. Upon closing of the acquisition of the Maestro portfolio on May 1, 2012, each outstanding subscription receipt was exchanged for one unit of Chartwell. Immediately prior to conversion to Trust Units, the subscription receipts were adjusted to fair value and \$229,505, net of tax and transaction costs, was recorded in unitholders' equity. Chartwell recognized a corresponding loss during the year ended December 31, 2012 of \$29,647 due to the change in fair value. This loss has been recorded in the consolidated statements of comprehensive loss as changes in fair values of financial instruments and unrealized foreign exchange losses (gains) (note 24). Chartwell incurred transaction-related costs of \$8,776, before tax effect, recorded in unitholders' equity.

## 16. Segmented information:

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

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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 16. Segmented information (continued):

2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 429,610	\$ 206,166	\$ 238,727	\$ 874,503	\$ –	\$ 874,503
Mezzanine loan interest	–	–	–	–	7,725	7,725
	–	–	–	–	1,493	1,493
	429,610	206,166	238,727	874,503	9,218	883,721
<b>Expenses:</b>						
Direct operating General, administrative and trust	276,675	179,307	159,332	615,314	–	615,314
	–	–	–	–	26,166	26,166
	276,675	179,307	159,332	615,314	26,166	641,480
Income (loss) before the undernoted <sup>(1)</sup>	152,935	26,859	79,395	259,189	(16,948)	242,241
<b>Finance costs (recovery):</b>						
Contractual interest	50,871	13,436	51,106	115,413	3,444	118,857
Other	44	(1,719)	1,132	(543)	8,853	8,310
Property lease expense	126	269	2,109	2,504	–	2,504
<b>Other expense (income):</b>						
Interest	(234)	(3,405)	–	(3,639)	(541)	(4,180)
Other	29,491	–	882	30,373	(5,899)	24,474
Depreciation of PP&E and amortization of intangible assets	117,923	9,217	75,186	202,326	1,594	203,920
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	–	(456)	–	(456)	49,835	49,379
	198,221	17,342	130,415	345,978	57,286	403,264
Income (loss) before income taxes	(45,286)	9,517	(51,020)	(86,789)	(74,234)	(161,023)
Income tax expense (benefit)	–	–	311	311	(21,992)	(21,681)
<b>Net income (loss)</b>	<b>\$ (45,286)</b>	<b>\$ 9,517</b>	<b>\$ (51,331)</b>	<b>\$ (87,100)</b>	<b>\$ (52,242)</b>	<b>\$ (139,342)</b>
<b>Expenditures for non-current assets:</b>						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 455,203	\$ –	\$ –	\$ 455,203	\$ –	\$ 455,203
Capital additions	63,678	13,211	10,549	87,438	4,389	91,827

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

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 16. Segmented information (continued):

2011	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Consolidated
<b>Revenue:</b>						
Resident Management and other fees	\$ 355,723	\$ 200,221	\$ 194,690	\$ 750,634	\$ –	\$ 750,634
Mezzanine loan interest	–	–	–	–	3,137	3,137
	–	–	–	–	1,601	1,601
	355,723	200,221	194,690	750,634	4,738	755,372
<b>Expenses:</b>						
Direct operating General, administrative and trust	227,874	174,622	129,636	532,132	–	532,132
	–	–	–	–	24,758	24,758
	227,874	174,622	129,636	532,132	24,758	556,890
Income (loss) before the undernoted <sup>(1)</sup>	127,849	25,599	65,054	218,502	(20,020)	198,482
<b>Finance costs (recovery):</b>						
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
<b>Other expense (income):</b>						
Interest	–	(3,480)	–	(3,480)	(337)	(3,817)
Other	(3,888)	1,514	5,583	3,209	–	3,209
Depreciation of PP&E and amortization of intangible assets	98,539	9,064	64,437	172,040	1,359	173,399
Changes in fair values 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)
<b>Net income (loss)</b>	<b>\$ (11,545)</b>	<b>\$ 5,956</b>	<b>\$ (46,171)</b>	<b>\$ (51,760)</b>	<b>\$ (11,571)</b>	<b>\$ (63,331)</b>
<b>Expenditures for non-current assets:</b>						
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

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

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 16. Segmented information (continued):

	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
2012						
Operating assets	\$ 1,859,174	\$ 293,810	\$ 844,878	\$ 2,997,862	\$ 7,426	\$ 3,005,288
Operating liabilities	\$ 1,183,718	\$ 236,905	\$ 763,281	\$ 2,183,904	\$ 267,259	\$ 2,451,163
2011						
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

## 17. Joint venture operations:

At December 31, 2012, Chartwell 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:

	2012	2011
Chartwell-HCN (Canadian) <sup>(1)</sup>	50%	—
Bristol Holdings LLC (U.S) <sup>(2)</sup>	50%	50%
Other Canadian joint ventures <sup>(3)</sup>	Various	Various

<sup>(1)</sup> On May 1, 2012, Chartwell acquired 50% interest in this joint venture, which has 39 retirement properties in Canada.

<sup>(2)</sup> At December 31, 2011, this joint venture owns 50% interest in five properties located in New York State. At December 31, 2012, these properties are classified as held for sale.

<sup>(3)</sup> Includes interests in seven separate joint ventures at December 31, 2011. At December 31, 2012, Chartwell holds a 50% interest in seven joint ventures and a 33% interest in one joint venture.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 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	
	2012	2011
Chartwell-HCN (Canadian)	\$ 12,846	\$ –
Bristol Holdings LLC (U.S.)	98,355	2,726
Other Canadian joint ventures	1,731	1,620
<b>Total current assets</b>	<b>\$ 112,932</b>	<b>\$ 4,346</b>
Chartwell-HCN (Canadian)	\$ 416,770	\$ –
Bristol Holdings LLC (U.S.)	–	100,908
Other Canadian joint ventures	103,143	100,624
<b>Total non-current assets</b>	<b>\$ 519,913</b>	<b>\$ 201,532</b>
<b>Total assets</b>	<b>\$ 632,845</b>	<b>\$ 205,878</b>
Chartwell-HCN (Canadian)	\$ 56,613	\$ –
Bristol Holdings LLC (U.S.)	99,969	3,673
Other Canadian joint ventures	37,777	30,074
<b>Total current liabilities</b>	<b>\$ 194,359</b>	<b>\$ 33,747</b>
Chartwell-HCN (Canadian)	\$ 178,914	\$ –
Bristol Holdings LLC (U.S.)	–	99,821
Other Canadian joint ventures	39,276	42,140
<b>Total non-current liabilities</b>	<b>\$ 218,190</b>	<b>\$ 141,961</b>
<b>Total liabilities</b>	<b>\$ 412,549</b>	<b>\$ 175,708</b>
Chartwell-HCN (Canadian)	\$ 61,005	\$ –
Bristol Holdings LLC (U.S.)	25,253	24,489
Other Canadian joint ventures	15,677	13,820
<b>Total revenue</b>	<b>\$ 101,935</b>	<b>\$ 38,309</b>
Chartwell-HCN (Canadian)	\$ 75,227	\$ –
Bristol Holdings LLC (U.S.)	24,788	26,148
Other Canadian joint ventures	17,693	15,874
<b>Total expenses</b>	<b>\$ 117,708</b>	<b>\$ 42,022</b>



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 18. Significant subsidiaries:

The following subsidiaries represent significant operations of Chartwell:

	Equity interest
Chartwell Master Care LP	100%
CSH Master Care USA Inc.	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:

	Note	2012		2011	
		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
Financial liabilities:					
Financial liabilities recorded at amortized cost:					
Mortgages payable	10(a)	1,979,350	2,097,244	1,876,266	2,035,575
Credit Facility	10(b)	77,000	77,000	53,000	53,000

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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. The above table excludes cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and distributions payable as the carrying amount of these assets and liabilities are a reasonable approximation of fair value and are disclosed elsewhere in these consolidated financial statements.

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) Due to the short-term nature of the mezzanine loans receivable and the Credit Facility these financial instruments carrying value approximate fair value.
- (ii) 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, 2012, the mortgages payable were discounted using rates between 1.94% and 4.86%.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 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.

2012	Fair value	Level 1	Level 2	Level 3
Financial liabilities:				
Financial liabilities recorded at FVTPL	\$ 178,003	\$ 171,524	\$ –	\$ 6,479
Derivatives	461	–	461	–
	<u>\$ 178,464</u>	<u>\$ 171,524</u>	<u>\$ 461</u>	<u>\$ 6,479</u>

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	–
	<u>\$ 99,054</u>	<u>\$ 94,406</u>	<u>\$ 917</u>	<u>\$ 3,731</u>

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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 Chartwell's risk management framework. Management is responsible for developing and monitoring Chartwell's risk management policies and reports regularly to the Board of Trustees on its activities.

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2011.

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 two significant categories of receivables: resident receivables and funding from various provincial governments.

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 Chartwell's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

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 Chartwell's financial assets exposed to credit risk, net of applicable loss allowances, represents Chartwell'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:

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	2012
Current	\$ 1,523
31 - 60 days	1,107
61 - 90 days	613
Over 90 days	1,145
Allowance for doubtful accounts	(1,390)
<b>Net resident receivables</b>	<b>\$ 2,998</b>

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

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 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.

Chartwell'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 funds by refinancing existing mortgages, arranging new mortgage financing, issuing units, convertible debentures or selling properties. At December 31, 2012, Chartwell had \$5,309 in cash and \$5,193 available and undrawn on the Credit Facility (note 10(b)).

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to Chartwell or on any terms at all. Management mitigates this risk by staggering debt maturities and through the use of programs, such as Canada Mortgage and Housing Corporation ("CMHC") insured mortgages.

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

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

Chartwell's major contractual obligations as at December 31, 2012 were as follows:

	Total	2013	2014	2015	2016	2017	Thereafter
Mortgages payable	\$ 1,975,625	\$ 284,848	\$ 258,391	\$ 303,405	\$ 325,371	\$ 279,186	\$ 524,424
Accounts payable and other liabilities	121,072	121,072	—	—	—	—	—
Distributions payable	7,800	7,800	—	—	—	—	—
Convertible debentures	135,000	—	—	—	—	—	135,000
Credit Facility	77,000	77,000	—	—	—	—	—
Purchase obligations <sup>(1)</sup>	20,296	20,296	—	—	—	—	—
Property operating leases	7,945	1,589	1,589	1,589	1,589	1,589	—
Other operating leases	11,222	1,125	1,321	1,306	1,164	1,129	5,177
Land leases	15,665	395	395	395	395	395	13,690
<b>Total contractual obligations</b>	<b>\$ 2,371,625</b>	<b>\$ 514,125</b>	<b>\$ 261,696</b>	<b>\$ 306,695</b>	<b>\$ 328,519</b>	<b>\$ 282,299</b>	<b>\$ 678,291</b>

<sup>(1)</sup>Relates to construction contracts and deferred purchase consideration.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

### (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, 2012, \$244,640 (2011 - \$148,698) of Chartwell's mortgages and loans payable, 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.

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 mature 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, 2012, is a loss position of \$461 (2011 - \$917), which is included in accounts payable and other liabilities on the consolidated balance sheets (note 12).



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

At December 31, 2012, Chartwell's interest-bearing financial instruments were:

	Carrying amount	
	2012	2011
Fixed-rate instruments:		
Financial assets (mezzanine loans)	\$ –	\$ 9,653
Financial liabilities	1,958,860	1,859,835
Variable-rate instruments:		
Financial liabilities	\$ 244,640	\$ 148,698

A change in interest rates at December 31, 2012 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, 2012 for the variable-rate financial instruments would have increased/decreased the loss for the year by \$2,446 (on a pre-tax basis).

### (b) Foreign currency rate risk:

At December 31, 2012, through its self-sustaining United States Operations, 28% (2011 - 34%) of Chartwell's assets and 32% (2011 - 40%) of Chartwell's mortgages payable were held in the United States and 27% (2011 - 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

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, 2012.

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, 2012:

	U.S. dollar
Cash	\$ 3,768
Loans receivable from self-sustaining United States Operations	65,000
Net investment in self-sustaining United States Operations	14,485
<b>Net exposure</b>	<b>\$ 83,253</b>

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	\$ 1,195
Change in other comprehensive loss	145

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

### (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, 2012, Chartwell received \$183,618 (2011 - \$177,188) in funding in respect of these licenses, which has been recorded as resident revenue and other income. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

## 20. Capital structure financial policies:

Chartwell'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 Chartwell complies with externally imposed capital requirements;
- (c) to ensure that Chartwell 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 Chartwell has access to sufficient capital for strategic acquisitions.

In managing its capital structure, Chartwell 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 Chartwell's total unitholders' equity and long-term debt. Chartwell'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, Chartwell may elect to issue units in lieu of cash to satisfy its convertible debenture obligations. Chartwell has access to a revolving Credit Facility that is secured by first and second charges on certain of its properties.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

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

In order to maintain or adjust the capital structure, Chartwell 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.

Chartwell 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 Chartwell can incur to 60% of GBV excluding convertible debentures, or 65% of GBV including convertible debentures.

Chartwell'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 Chartwell's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2012 and 2011:

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	2012	2011	Increase (decrease)
Debt to GBV, excluding convertible debentures	54.3%	57.0%	(2.7)%
Debt to GBV, including convertible debentures	57.9%	59.3%	(1.5)%
Interest coverage ratio	2.00x	1.91x	0.09x

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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 Chartwell and its consolidated subsidiaries.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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

GBV means, at any time, the consolidated book value of the assets of Chartwell, as shown on Chartwell'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 Canadian Generally Accepted Accounting Principles and IFRS at January 1, 2010, Chartwell's effective transition date, and the related costs in respect of completed property acquisitions that were expensed in the period incurred.

## 21. Personnel expenses:

The analysis of employee benefits expense for the year ended December 31, 2012, included in the consolidated statements of comprehensive loss under direct operating expenses and general, administrative and trust expenses, is as follows:

	2012	2011
Salaries and wages	\$ 408,262	\$ 355,531
Post-employment benefits (defined contribution plans)	4,996	4,029
Unit-based compensation	2,574	1,993
	<u>\$ 415,832</u>	<u>\$ 361,553</u>

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 22. Other expense (income):

	2012	2011
Gain recorded on remeasurement of previously held equity interest on acquisition	\$ –	\$ (3,595)
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivables (note 6)	(9,399)	–
Gain on disposal of assets	(325)	(7,556)
Interest income on loans and receivables	(4,180)	(3,817)
Other income	(13,904)	(14,968)
Impairment of PP&E (note 4)	21,203	13,080
Transaction costs arising on business acquisitions and dispositions	12,995	1,280
Other expense	34,198	14,360
Other expense (income)	\$ 20,294	\$ (608)

In 2012, Chartwell recorded impairment of \$21,203 for three properties located in Quebec, and projects under development, where carrying values exceeded estimated fair value (note 4).

Included in the gain on disposal of assets for the year ended December 31, 2011 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 23. Finance costs:

	2012	2011
Contractual mortgage interest expense (note 10)	\$ 108,801	\$ 94,765
Interest expense on convertible debentures	7,193	4,425
Credit Facility and other interest expense	2,863	1,499
	<u>118,857</u>	<u>100,689</u>
Interest capitalized to properties under development	(1,843)	(1,303)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	1,639	3,037
Distributions on Class B Units recorded as interest expense	909	908
Distributions on subscription receipts	2,242	–
Convertible debenture issuance costs	5,363	–
Total finance costs	<u>\$ 127,167</u>	<u>\$ 103,331</u>

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

	2012	2011
Changes in fair value of convertible debentures	\$ 10,725	\$ (450)
Changes in fair value of interest rate swap	(456)	(171)
Unrealized foreign exchange loss (gain)	1,710	(1,322)
Changes in fair value of LTIP option component	2,701	(1,981)
Changes in fair value of Class B Units	4,034	537
Changes in fair value of Deferred Trust Units	1,018	455
Change in fair value of subscription receipts (note 15)	29,647	–
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	<u>\$ 49,379</u>	<u>\$ (2,932)</u>

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 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 for the years ended December 31:

	2012	2011
Deferred tax assets:		
Mortgages and other financing	\$ 7,825	\$ 3,774
Issue costs	7,585	3,158
Losses carried forward	–	7,288
PP&E	18,360	–
Other	4,367	3,957
	<u>38,137</u>	<u>18,177</u>
Deferred tax liabilities:		
PP&E	–	(7,506)
Capital funding receivable	(23,531)	(23,559)
Intangible assets	(13,129)	(11,688)
Other	(1,477)	(1,749)
	<u>(38,137)</u>	<u>(44,502)</u>
	<u>\$ –</u>	<u>\$ (26,325)</u>

Deferred tax assets have not been recognized for the following temporary differences in Canada:

	2012	2011
Deductible temporary differences	\$ 11,473	\$ –
Losses carried forward	26,314	–
	<u>\$ 37,787</u>	<u>\$ –</u>

The Chartwell has non-capital loss carry forwards in Canada of \$16,972 which will expire between 2015 and 2032. The Chartwell also has capital loss carry forwards in Canada of \$9,342 which can be carried forward indefinitely. The deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.



# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

## 25. Income taxes (continued):

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:

	2012	2011
Deductible temporary differences	\$ 140,257	\$ 92,903
Net operating losses	77,097	73,700
Capital losses	23,125	26,597
<b>Total</b>	<b>\$ 240,479</b>	<b>\$ 193,200</b>

Net operating losses will expire between 2025 and 2032 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.

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 49.53% (2011 - 46.41%) The differences for the years ended December 31 are as follows:

	2012	2011
Loss before income taxes	\$ (161,023)	\$ (77,128)
Income tax recovery at Canadian SIFT tax rates	\$ (79,755)	\$ (35,795)
Effect of permanent differences	785	301
Tax benefits not recognized	31,408	18,961
International income tax rate differences	5,897	4,285
Prior period adjustments	(489)	(1,565)
Fair value adjustments	19,996	-
Other	477	16
	<b>\$ (21,681)</b>	<b>\$ (13,797)</b>

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 26. Commitments and contingencies:

### (a) Lease obligations:

#### (i) Property operating leases:

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 \$1,589 (U.S. \$1,597) per annum and a total of \$7,946 (U.S. \$7,986) for the remaining term of the leases. The leases provide 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) Land leases:

Chartwell owns one property in Alberta, Canada subject to a land lease. This lease expires on July 17, 2061, with annual payments of \$126. Pursuant to the Regency Care portfolio acquisition, Chartwell 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.

#### (iii) Other operating leases:

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to July 31, 2022. Annual payments in aggregate on these leases vary from \$1,125 to \$1,321 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 26. Commitments and contingencies (continued):

### (b) Purchase obligations:

Chartwell has entered into various construction contracts related to various development and asset improvement projects. As at December 31, 2012, the remaining commitments under these contracts amounted to approximately \$19,776. Deferred purchase consideration in the amount of \$520 was outstanding as of December 31, 2012.

### (c) Letters of credit:

As at December 31, 2012, Chartwell was contingently liable for letters of credit in the amount of \$2,807 (2011 - \$2,263).

### (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 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.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## 26. Commitments and contingencies (continued):

### (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.

## 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. As at December 31, 2012 outstanding balances on these loans were \$48,825.

## 28. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2012 and 2011 was as follows:

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	2012	2011
Officers and Trustees compensation	\$ 4,693	\$ 4,713
Post-employment benefits	64	60
Termination benefits	225	1,238
Other long-term benefits	936	438
Unit-based payments	87	116

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# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2012 and 2011

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## **28. Key management personnel compensation (continued):**

Chartwell management has a Senior Executive Committee ("SEC") with the responsibility to provide strategic direction and oversight to Chartwell. The above table includes the total compensation of members of the SEC, and Directors of Chartwell.

## **29. Subsequent events:**

In January 2013, Chartwell completed the arrangement for mortgage financing on six properties, including five fixed mortgages and one variable, for aggregate proceeds of \$37,800. A portion of these proceeds were used to repay amounts outstanding on the Credit Facility.

On February 13, 2013, Chartwell and its partner completed the previously-announced sale of the five-property portfolio in the United States ("Bristol portfolio"). The sale price was U.S. \$290,000 and was satisfied by the purchasers assuming mortgages in the amount of U.S. \$197,700, with the balance of the purchase price, subject to closing adjustments and escrow requirements paid in cash. Chartwell owned a 50% interest in this portfolio. At December 31, 2012, Chartwell classified the Bristol portfolio as assets held for sale (note 9).