Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL
RETIREMENT RESIDENCES

Years ended December 31, 2013 and 2012

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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, 2013 and 2012 and January 1, 2012, the consolidated statements of comprehensive income (loss), unitholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, 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, 2013 and 2012 and January 1, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 5, 2014
Toronto, Canada

CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets
(In thousands of Canadian dollars)
December 31, 2013 and 2012, and January 1, 2012

	Note	December 31, 2013	December 31, 2012 (Restated - note 25)	January 1, 2012 (Restated - note 25)
Assets				
Current assets:				
Cash		$ 8,601	$ 25	$ 8,840
Trade and other receivables		17,881	20,970	10,590
Capital funding receivable	6	4,698	4,396	3,743
Mezzanine loans		–	–	9,653
Other assets	7	26,668	25,859	25,511
Total current assets		57,848	51,250	58,337
Non-current assets:				
Other assets	7	7,397	7,186	7,344
Capital funding receivable	6	66,481	56,661	55,377
Investment in joint ventures	8	28,319	33,498	27,963
Intangible assets	5	49,777	50,775	52,879
Property, plant and equipment ("PP&E")	4	2,628,140	2,685,431	2,379,710
Total non-current assets		2,780,114	2,833,551	2,523,273
Total assets		$ 2,837,962	$ 2,884,801	$ 2,581,610
Liabilities and Unitholders' Equity				
Current liabilities:				
Secured revolving operating credit facility ("Credit Facility")	9(b)	$ 27,000	$ 77,000	$ 53,000
Accounts payable and other liabilities	11	129,020	122,993	111,907
Distributions payable		7,884	7,800	6,596
Mortgages payable	9(a)	219,347	269,026	191,150
Convertible debentures		–	–	76,425
Deferred consideration on business combinations		–	520	5,328
Obligations to joint ventures	8	–	7,296	6,676
Total current liabilities		383,251	484,635	451,082
Non-current liabilities:				
Mortgages payable	9(a)	1,784,889	1,680,589	1,554,119
Convertible debentures	10	144,005	147,150	–
Class B Units of Chartwell Master Care LP ("Class B Units")	12	16,583	18,302	14,292
Deferred tax liabilities	21	–	–	26,325
Total non-current liabilities		1,945,477	1,846,041	1,594,736
Total liabilities		2,328,728	2,330,676	2,045,818
Unitholders' equity	13	509,234	554,125	535,792
Commitments and contingencies	22			
Subsequent events	24			
Total liabilities and unitholders' equity		$ 2,837,962	$ 2,884,801	$ 2,581,610

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Huw Thomas" Trustee "Sidney Robinson" Trustee

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2013 and 2012

	Note	2013	2012 (Restated - note 25)
Revenue:			
Resident		$ 819,114	$ 781,039
Management and other fees		7,925	7,725
Lease revenue from joint ventures	8	31,386	19,933
Mezzanine loan interest		154	1,493
		858,579	810,190
Expenses:			
Direct operating		585,988	557,786
General, administrative and trust		31,016	26,166
		617,004	583,952
Income before the undernoted[(1)]		241,575	226,238
Finance costs	19	113,716	119,090
Property lease expense		2,673	2,504
Other expense (income)	18	(9,262)	20,215
Depreciation of PP&E	4	166,979	193,642
Amortization of intangible assets	5	1,974	3,537
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	20	(9,580)	49,379
Share of net income from joint ventures	8	(49,069)	(1,106)
Income (loss) before income taxes		24,144	(161,023)
Income tax expense (benefit):	21		
Current		260	296
Deferred		–	(21,977)
		260	(21,681)
Income (loss) for the year		23,884	(139,342)
Items to be reclassified to profit or loss in subsequent periods:			
Other comprehensive income (loss):			
Unrealized foreign currency gain (loss) on translation of foreign operations		3,103	(1,504)
Total comprehensive net income (loss)		$ 26,987	$ (140,846)

[(1)]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), share of net income from joint ventures and income tax expense (benefit).

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2013 and 2012

2013	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, December 31, 2012	$ 1,702,685	$ 25,425	$ (19,533)	$ (537,142)	$ (5,476)	$ (616,725)	$ 4,891	$ 554,125
Income for the year	–	–	–	23,884	–	–	–	23,884
Other comprehensive income	–	–	–	–	3,103	–	–	3,103
Distributions to unitholders	–	–	–	–	–	(93,069)	–	(93,069)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	19,058	–	–	–	–	–	–	19,058
Trust Units issued on exchange of Class B Units	228	–	–	–	–	–	–	228
Trust Units issued under the Long Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	2,593	(4,131)	1,499	–	–	–	1,053	1,014
Interest on LTIP receivable	–		(190)	–	–	–	–	(190)
Distributions applied against LTIP receivable	–		1,081	–	–	–	–	1,081
Unitholders' equity, December 31, 2013	$ 1,724,564	$ 21,294	$ (17,143)	$ (513,258)	$ (2,373)	$ (709,794)	$ 5,944	$ 509,234

During the year ended December 31, 2013, distributions were declared and paid at $0.045 per unit per month. In the first two months of 2014, distributions were declared at $0.045 per unit per month totalling $15,710.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2013 and 2012

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, December 31, 2011	$ 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 DRIP	15,791	–	–	–	–	–	–	15,791
Trust Units issued on exchange of Class B Units	24	–	–	–	–	–	–	24
Trust Units issued under 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
Unitholders' equity, December 31, 2012	$ 1,702,685	$ 25,425	$ (19,533)	$ (537,142)	$ (5,476)	$ (616,725)	$ 4,891	$ 554,125

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.

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2013 and 2012

	Note	2013	2012 (Restated - note 25)
Cash provided by (used in):			
Operating activities:			
Income (loss) for the year		$ 23,884	$ (139,342)
Items not affecting cash:			
Depreciation and amortization		168,953	197,180
Other expense (income)	18	(9,262)	20,215
Finance costs	19	113,716	119,090
Transaction costs		(5,447)	(12,847)
Mezzanine loan interest		(154)	(1,493)
Non-cash compensation expense		2,542	2,282
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	20	(9,580)	49,379
Share of net income from joint ventures		(49,069)	(1,106)
Current income taxes		260	296
Deferred income taxes		–	(21,977)
Other		(1,097)	(485)
Change in trade and other receivables		3,094	(2,699)
Change in other assets		(1,617)	(1,270)
Change in accounts payable and other liabilities		(3,724)	(6,161)
		232,499	201,062
Interest received		4,025	5,673
Interest paid		(104,412)	(109,340)
Income taxes paid		(260)	(296)
Net cash provided by operating activities		131,852	97,099
Financing activities:			
Proceeds from mortgage financing, net of repayments on maturity		126,222	16,083
Changes to Credit Facility		(50,000)	24,000
Scheduled mortgage principal repayments		(54,515)	(45,505)
Net additions to finance costs		(4,901)	(3,750)
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		(72,846)	(69,354)
Deposits and repayments received under LTIP		1,499	663
Net cash provided by (used in) financing activities		(54,541)	172,285
Investing activities:			
Acquisition of assets under business combinations		(67,309)	(194,466)
Payment of deferred consideration on business combinations		–	(5,000)
Additions to PP&E and intangible assets		(84,503)	(96,732)
Proceeds from capital funding receivable		4,321	3,812
Proceeds from assets disposal		30,708	593
Mezzanine loan collections		–	15,158
Change in restricted cash		597	(37)
Distributions received, net of Contributions, from joint ventures	8	46,874	(1,504)
Net cash used in investing activities		(69,312)	(278,176)
Increase (decrease) in cash		7,999	(8,792)
Foreign exchange gain (loss) on U.S. dollar-denominated cash		577	(23)
Cash, beginning of year		25	8,840
Cash, end of year		$ 8,601	$ 25

See accompanying notes to consolidated financial statements.

Chartwell Retirement Residences ("Chartwell") 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 the wholly owned 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").

On March 5, 2014, the Board of Trustees authorized the financial statements for issue.

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; and

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

(d) Use of estimates and judgments:

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

1. Basis of preparation (continued):

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

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

(ii) Note 3 - Acquisitions.

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: valuation of the indefinite useful life assets;

(ii) Note 2(e) - Impairment: key assumptions underlying recoverable amounts;

(iii) Note 3 - Acquisitions: fair value of the net identifiable assets acquired; and

(iv) Note 21 - Income taxes: availability of future taxable profit to apply potential tax carryforward losses.

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 operations. All intercompany transactions have been eliminated on consolidation.

(ii) Jointly controlled entities:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

These consolidated financial statements include Chartwell's proportionate share of each of the assets, liabilities, revenue and income and expenses of joint operations on a line-by-line basis. Joint ventures are included in Chartwell's consolidated financial statements as investments using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. Chartwell's share of joint venture profit or loss is included in the consolidated statements of comprehensive income (loss).

(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.

2. Significant accounting policies (continued):

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.

(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 dates. 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 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.

2. Significant accounting policies (continued):

Revenue and expense 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).

(c) PP&E:

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

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

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.

2. Significant accounting policies (continued):

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

Building components:	
Structure	36 - 40 years
Mechanical, electrical and elevators	10 - 30 years
Roof, windows and doors	5 - 20 years
Interior upgrades	3 - 5 years
Resident contracts and above- and below-market leases	1 - 3 years
Furniture, fixtures and equipment	3 - 5 years

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.

2. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets include licenses, management contracts and other intangible assets, which are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of intangible assets 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 licenses 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.

2. Significant accounting policies (continued):

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.

(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.

2. Significant accounting policies (continued):

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

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

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

Chartwell's corporate assets do not generate 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.

2. Significant accounting policies (continued):

(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.

(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 until the completion of sale.

2. Significant accounting policies (continued):

(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.

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 consolidated 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.

2. Significant accounting policies (continued):

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.

(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.

2. Significant accounting policies (continued):

(v) Fair value hierarchy:

Financial instruments carried at fair value are 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.

(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.

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.

2. Significant accounting policies (continued):

(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.

(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.

2. Significant accounting policies (continued):

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.

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.

2. Significant accounting policies (continued):

(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 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.

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.

2. Significant accounting policies (continued):

(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.

(n) Segment reporting:

Chartwell monitors and operates its Canadian Retirement Operations, Canadian Long Term Care Operations and United States Operations separately. These segments include Chartwell's proportionate share of all its jointly controlled entities.

Segment results that are reported to the Senior Executive Committee ("SEC") 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.

2. Significant accounting policies (continued):

(p) IFRS pronouncements commencing on January 1, 2013:

(i) 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. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

(ii) 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 requires interests in jointly-controlled entities to be accounted for under the equity method. The standard provides guidance regarding joint arrangements, which are arrangements where two or more parties have joint control (before Chartwell transitioned to IFRS 11 all joint arrangements were referred to as joint ventures). A joint arrangement may be classified as a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties have the rights to the assets, and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. Chartwell previously accounted for its interest in all joint arrangements using proportionate consolidation. Chartwell completed the assessment of joint arrangements under IFRS 11 and determined that certain entities are jointly-controlled and therefore are required to be accounted for under the equity method. See accompanying notes 8 and 25 to these consolidated financial statements.

2. Significant accounting policies (continued):

(iii) 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 annual consolidated financial statements for the year ending December 31, 2013, see accompanying note 8 to the consolidated financial statements.

(iv) 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. This standard increased the quarterly disclosures for Chartwell fair value measurements. See the accompanying notes to consolidated financial statements for the impact of this new standard.

(v) 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. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

2. Significant accounting policies (continued):

(vi) 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. Chartwell has assessed this amendment and provided additional disclosures in its condensed consolidated interim statements of comprehensive income (loss).

(vii) 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. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

(viii) Amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7"):

In December 2011, the IASB 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 IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

2. Significant accounting policies (continued):

(ix) 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 January 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. Chartwell has assessed this amendment and determined there is no impact on its consolidated financial statements.

(q) IFRS pronouncements issued but not yet effective:

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

In 2013, the IASB issued amendments to, IFRS 9, which will ultimately replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. The extent of impact of IFRS 9 adoption has not yet been determined.

2. Significant accounting policies (continued):

(ii) Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"):

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

(iii) Amendments to IAS 36, Impairment of Assets ("IAS 36"):

In May 2013, the IASB released an amendment to IAS 36. This amendment requires entities to disclose the recoverable amount of an impaired CGU only when an impairment loss has been recognised or reversed. The amendment is effective January 1, 2014. Chartwell has assessed this amendment and determined it will not materiality affect the consolidated financial statements.

(iv) Interpretation of International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"):

In 2013, the IASB issued IFRIC 21. The IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, contingent liabilities and contingent assets ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The extent of impact of adoption has not yet been determined.

(v) Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycle - various standards:

The IASB issued its annual improvements to IFRSs 2010-2012 and 2011-2013 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. The amendments are effective July 1, 2014. The extent of the impact of adoption of amendments has not yet been determined.

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2013:

On June 19, 2013, Chartwell acquired a 100% interest in a 65-unit long term care residence and a 171-unit independent supportive living residence located at the Cite-Jardin complex in Gatineau, Quebec. The purchase price before closing costs was $19,000 and fully financed with a two-year mortgage loan. This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. Chartwell incurred acquisition-related costs of $261, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. The newly acquired Cite-Jardin Residences have contributed revenue of $2,970 and net loss of $404 from the date of acquisition, and are included in the Canadian Retirement Operations segment. The transaction was accounted for as a business combination under IFRS 3, Business Combinations ("IFRS 3").

On August 14, 2013, Chartwell acquired a 100% interest in a 109-unit independent supportive living residence located in Ridgepointe, Kamloops, British Columbia ("Ridgepointe"). The purchase price before closing costs was $21,500. The transaction was partially financed by a new five-year $11,825 mortgage, with the remaining portion of the purchase price settled in cash. This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. Chartwell incurred acquisition-related costs of $691, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Ridgepointe has contributed revenue of $706 and net loss of $1,132 from the date of acquisition, and is included in the Canadian Retirement Operations segment. The transaction was accounted for as a business combination under IFRS 3.

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

3. Acquisitions (continued):

On October 25, 2013, Chartwell completed the acquisition of Cedarbrooke Chateau ("Cedarbrooke"), a 138-unit independent living residence located in Mission, British Columbia. The purchase price before closing costs was $27,000 and was partially financed by a $15,250 five-year mortgage, with the remaining portion of the purchase price settled in cash. This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. Chartwell incurred acquisition-related costs of $656, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Cedarbrooke has contributed revenue of $594 and net loss of $828 from the date of acquisition, and is included in the Canadian Retirement Operations segment. The transaction was accounted for as a business combination under IFRS 3.

Date of acquisition	June 19, 2013	August 14, 2013	October 25, 2013	
Segment	Canadian Retirement Operations			
Location	Province of Quebec (236 suites)	Province of British Columbia (109 suites)	Province of British Columbia (138 suites)	Total
PP&E	$ 19,000	$ 21,500	$ 27,000	$ 67,500
Other liabilities	–	(191)	–	(191)
Net assets acquired	$ 19,000	$ 21,309	$ 27,000	$ 67,309
Cash consideration	$ 19,000	$ 21,309	$ 27,000	$ 67,309
Total consideration transferred	$ 19,000	$ 21,309	$ 27,000	$ 67,309

Chartwell continues to assess the initial valuation of the net assets acquired. Consequently, the allocation for accounting purposes may be adjusted in future periods.

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

3. Acquisitions (continued):

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

Chartwell completed three acquisitions for the year ended December 31, 2012. Purchases completed include the acquisition of 100% ownership interest in Georgian Traditions Retirement Residence on January 20, 2012, a 50% interest in Renaissance Retirement Residence on April 1, 2012 and a 50% ownership in Chartwell and Health Care REIT Inc. ("HCN") properties on May 1, 2012. 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:

Date of acquisition	January 20, 2012	April 1, 2012	May 1, 2012	
Segment	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	$ 425,871	$ 448,896
Other assets (liabilities)	(423)	(121)	3,490	2,946
Mortgages assumed	(11,435)	(4,691)	(235,175)	(251,301)
Investment in joint ventures	–	–	2,314	2,314
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

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

4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, January 1, 2012	$ 279,337	$ 2,235,398	$ 60,951	$ 57,162	$ 18,540	$ 2,651,388
Additions	–	28,519	13,064	53,582	507	95,672
Additions through business combinations	45,966	394,233	3,559	–	5,138	448,896
Disposals	–	–	–	–	(268)	(268)
Derecognition	–	(7,453)	(2,967)	–	–	(10,420)
Development costs allocable to capital funding receivable	–	–	–	(5,749)	–	(5,749)
Transfers[1]	6,219	66,665	4,976	(78,873)	–	(1,013)
Exchange differences on translation of United States Operations	(1,920)	(16,344)	(535)	(46)	(143)	(18,988)
Balance, December 31, 2012	329,602	2,701,018	79,048	26,076	23,774	3,159,518
Additions	–	51,982	10,379	21,418	–	83,779
Additions through business combinations	6,636	57,774	1,490	–	1,600	67,500
Disposals	(5,591)	(76,584)	(2,155)	–	–	(84,330)
Derecognition	–	(22,508)	(2,345)	–	–	(24,853)
Development costs allocable to capital funding receivable	–	–	–	(14,443)	–	(14,443)
Transfers	–	2,474	126	(2,060)	(540)	–
Exchange differences on translation of United States Operations	5,804	49,045	1,886	9	526	57,270
Balance, December 31, 2013	$ 336,451	$ 2,763,201	$ 88,429	$ 31,000	$ 25,360	$ 3,244,441
Accumulated depreciation and impairment losses						
Balance, January 1, 2012	$ –	$ 245,595	$ 24,203	$ 1,880	$ –	$ 271,678
Depreciation	–	176,428	17,214	–	–	193,642
Derecognition	–	(7,453)	(2,967)	–	–	(10,420)
Impairment	–	20,661	–	542	–	21,203
Exchange differences on translation of United States Operations	–	(1,804)	(212)	–	–	(2,016)
Balance, December 31, 2012	–	433,427	38,238	2,422	–	474,087
Depreciation	–	150,349	16,630	–	–	166,979
Disposals	–	(19,579)	(1,779)	–	–	(21,358)
Derecognition	–	(22,508)	(2,345)	–	–	(24,853)
Impairment	–	10,399	–	–	1,103	11,502
Exchange differences on translation of United States Operations	–	8,835	1,109	–	–	9,944
Balance, December 31, 2013	$ –	$ 560,923	$ 51,853	$ 2,422	$ 1,103	$ 616,301
Carrying amounts						
Balance, December 31, 2012	$ 329,602	$ 2,267,591	$ 40,810	$ 23,654	$ 23,774	$ 2,685,431
Balance, December 31, 2013	336,451	2,202,278	36,576	28,578	24,257	2,628,140

[1]For the year ended December 31, 2012, Chartwell transferred $1,013 from properties under development to intangible assets (note 5).

4. Property, plant and equipment (continued):

Chartwell capitalized $1,286 of borrowing costs related to development projects under construction for the year ended December 31, 2013, at an average capitalization rate of 5.15%. During the year ended December 31, 2012, Chartwell capitalized $1,843 of borrowing costs related to development projects under construction at an average capitalization rate of 5.33%.

Chartwell disposed of a seven-property portfolio in the United States, located in Arizona, Georgia, Louisiana, Oklahoma and Alabama to an affiliate of Brookdale Senior Living Inc. ("Brookdale"), the manager of six of these properties, on October 2, 2013. The portfolio had a carrying amount of $61,577 ($59,597 U.S.) at the time of disposal (note 18).

Chartwell also recorded disposals of assets as a result of other transactions entered into throughout the year with a carrying value of $1,395.

Chartwell completed an assessment of PP&E for the year ended December 31, 2013 to determine if any events have occurred that would indicate possible impairment of PP&E. In the case of three CGUs, two included in Canadian Retirement Operations, and one in United States Operations, indicators existed based on operational results and management forecasts, that the asset's recoverable amount may be lower than its carrying amount. These indicators included decreases in net operating income and occupancy compared to prior years as a result of competition in local market areas and changes in the services Chartwell is able to provide. The properties are located in Quebec and Texas, respectively. Chartwell completed an assessment of the recoverable amount of these assets or CGUs 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. Fair value less costs to sell was determined using a stabilized net operating income for the properties, adjusted for usual expense items and occupancy rates, and applying capitalization rates between 7.5%-9%. Adjustments and capitalization rates were determined as management estimates based on review of market conditions and recent transactions. As a result of the assessment completed on these properties an impairment loss of $10,399 was recognized in other expense (income) (note 18).

An impairment loss of $1,103 was recorded during the year ended December 31, 2013 for land held for development, located in Quebec, based on the fair value less cost to sell being less than the carrying value. The impairment was determined in December 2013 based on management decision to dispose of the land.

4. Property, plant and equipment (continued):

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 18).

Chartwell, in 2012, 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 CGUs 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 18).

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

5. Intangible assets:

	Licenses	Other[1]	Total
Cost			
Balance, December 31, 2011	$ 44,334	$ 16,134	$ 60,468
Additions	–	554	554
Transfers (note 4)	–	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
Additions	–	724	724
Exchange differences on translation of United States Operations	–	598	598
Balance, December 31, 2013	$ 44,334	$ 15,781	$ 60,115
Accumulated amortization and impairment losses			
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
Amortization	–	1,974	1,974
Exchange differences on translation of United States Operations	–	346	346
Balance, December 31, 2013	$ –	$ 10,338	$ 10,338
Carrying amounts			
Balance, December 31, 2012	$ 44,334	$ 6,441	$ 50,775
Balance, December 31, 2013	44,334	5,443	49,777

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

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

6. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	Amount
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
Development costs allocable to capital funding receivable	14,443
Capital funding applied to receivable in the year	(4,321)
Balance, December 31, 2013	$ 71,179
Current	$ 4,698
Non-current	66,481
	$ 71,179

The capital funding receivable of $71,179 (2012 - $61,057) represents the present value of the funding receivable from the Government of Ontario in respect of 15 long term care properties. The weighted average remaining term of this funding is approximately 12.2 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.

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

7. Other assets:

	2013	2012
Prepaid expenses and deposits	$ 11,747	$ 10,672
Restricted cash	13,355	13,952
Lease purchase option	4,547	4,253
Other assets	4,416	4,168
	$ 34,065	$ 33,045
Current	$ 26,668	$ 25,859
Non-current	7,397	7,186
	$ 34,065	$ 33,045

Restricted cash relates primarily to capital expenditure reserves required in the United States for certain mortgages. Included in non-current other assets are the lease purchase option and the unamortized value of below-market value leases.

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

8. Joint Arrangements:

The following are Chartwell's joint arrangements:

Joint arrangements	Number of properties	Location	Chartwell ownership	Joint arrangement type
Chartwell-HCN Landlord[(1)]	39	Canada	50%	Joint operation
Chartwell-HCN Operator[(1)]	Same as above	Same as above	50%	Joint venture[(3)]
Robert Speck[(2)]	1	Canada	33%	Joint operation
Oakville	1	Canada	50%	Joint venture[(3)]
Constantia	1	Canada	50%	Joint venture[(3)]
Pickering	1	Canada	50%	Joint venture[(3)]
Valley Vista	1	Canada	50%	Joint operation
Riverside	1	Canada	50%	Joint operation
Churchill	1	Canada	50%	Joint operation
Bristal[(4)]	5	United States	50%	Joint venture[(3)]

[(1)] On May 1, 2012, Chartwell acquired a 50% interest in this joint venture. Chartwell directly holds its interest in real estate while its interest in operations is held through separate legal entities.
[(2)] Chartwell completed the acquisition of the remaining 66.7% on January 2, 2014.
[(3)] The joint venture has been structured through separate legal vehicle.
[(4)] Chartwell owns a 50% interest in a joint venture that owned and operated five properties located in New York State. On February 13, 2013, the joint venture disposed of a majority of the properties' assets and liabilities.

Chartwell has entered into joint arrangements in respect of certain of its seniors housing operations as detailed in the table above. These joint arrangements have the benefit of allocating the risks associated with ownership and management of such seniors housing properties between the parties (note 15). These joint arrangements are consistent with Chartwell's strategy by allowing a presence in markets or properties Chartwell otherwise would not have had access to. Chartwell may be exposed to adverse developments, including a possible change in control, in the business and affairs of its joint arrangement partners which could have a significant impact on, or termination of, Chartwell's interests in its joint arrangements and could affect the value of the joint arrangements to Chartwell and/or cause Chartwell to incur additional costs, or loss of management revenue, if it were to solely undertake the operations of the joint arrangement. In addition, there are risks which arise from the joint arrangements themselves, including: the willingness of the other partners to contribute or withdraw funds; a change in creditworthiness of the partner; the risk that the other partners may exercise buy sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other partners interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.

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

8. Joint Arrangements (continued):

Chartwell on behalf of its joint arrangement partners have jointly and severally guaranteed 100% of CMHC-insured loans on three properties, which are 50% owned by Chartwell, to a maximum amount of $52,315. As at December 31, 2013, outstanding balances on these loans were $47,632.

At December 31, 2013, Chartwell has an interest in a number of joint operations located in Canada, which have been accounted for under the proportionate consolidation method. The following is the summarized financial information in respect of the interests in these joint operations at Chartwell's share:

	As at and for the year ended 2013	2012
Current assets	$ 8,195	$ 7,920
Non-current assets	447,819	470,399
Total assets	$ 456,014	$ 478,319
Current liabilities	$ 79,408	$ 70,166
Non-current liabilities	211,680	209,152
Total liabilities	$ 291,088	$ 279,318
Total revenue	$ 40,933	$ 28,650
Total expenses	$ 52,031	$ 45,504

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

8. Joint Arrangements (continued):

The following tables summarize the information about Chartwell's investment in joint ventures:

	2013	2012
Distributions received from joint ventures	$ 47,062	$ 2,987
Contributions to joint ventures	188	4,491

	2013	2012
Current assets	$ 9,894	$ 104,473
Non-current assets	47,332	49,512
Total assets	$ 57,226	$ 153,985
Current liabilities	$ 12,811	$ 111,245
Non-current liabilities	16,096	16,538
Total liabilities	$ 28,907	$ 127,783
Net Investment in joint ventures	$ 28,319	$ 26,202

Included in current assets is $3,086 (2012 - $5,284) in cash and cash equivalents.

	2013	2012
Revenue	$ 103,546	$ 93,464
Gain on disposal of assets	48,947	–
Expenses	(103,424)	(92,358)
Chartwell's share of net income from joint ventures	$ 49,069	$ 1,106

8. Joint Arrangements (continued):

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts payable and receivable, and in management fee income, as applicable. As of December 31, 2013, $517 (2012 - $1,205) of Chartwell's accounts receivable and $6,722 (2012 - $4,249) of Chartwell's accounts payable relate to entities in which it had an investments in joint ventures. For the year ended December 31, 2013, $5,041 (2012 - $3,417), of Chartwell's management fees and other income related to entities in which it had an investment in joint ventures.

Chartwell and HCN (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 39 properties acquired on May 1, 2012 which under IFRS 11, Joint Arrangements ("IFRS 11"), are accounted for as joint operations. Chartwell's 50% interest in the operations of these properties are held through separate legal entities (collectively referred to as "Chartwell-HCN operator") and under IFRS 11 are accounted for as joint ventures using the equity method. As a result of this relationship included in accounts payable is $2,927 (2012 - $1,441) as a result of transactions between properties landlords and Chartwell-HCN operators.

Chartwell-HCN operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and HCN is still in effect. Lease payments vary for each property and include annual adjustments based upon agreed financial ratios. As a result, Chartwell's 50% interest of the landlords' lease receipts, $31,386 for the year ended December 31, 2013 (2012 - $19,933), is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-HCN operator lease expense is included in the share of joint venture income (loss) in the consolidated statements of comprehensive loss.

On February 13, 2013, Chartwell's joint venture, Bristal Holdings LLC (U.S.), completed the previously announced sale of a five-property portfolio in the United States. The sale price for 100% interest was $290,580 (U.S. $290,000) and was satisfied by the purchasers assuming mortgages in the amount of $198,095 (U.S. $197,700), with the balance of the purchase price, subject to closing adjustments and escrow requirements paid in cash. As a result of this sale of assets, Chartwell's share of net income includes a gain of $48,947 (U.S. $48,460), before transaction costs. Chartwell received a distribution from Bristal Holdings LLC (U.S.) of $46,337 (U.S. $45,967) in the year ended December 31, 2013.

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

9. 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 risks, see note 15.

The mortgages payable as at December 31, 2013 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt	Weighted average interest rate of maturing debt (%)
2014	$ 62,127	$ 156,437	$ 218,564	11	4.38
2015	52,003	317,594	369,597	18	4.84
2016	44,978	318,466	363,444	18	6.04
2017	35,668	214,529	250,197	13	5.62
2018	36,948	72,145	109,093	6	4.62
2019	36,220	10,591	46,811	2	4.53
2020	36,629	51,331	87,960	4	4.30
2021	34,773	50,150	84,923	4	4.59
2022	31,421	62,200	93,621	5	3.54
2023	26,374	58,992	85,366	4	4.25
2024	18,298	57,582	75,880	4	4.74
Thereafter	173,790	45,767	219,557	11	4.54
	$ 589,229	$ 1,415,784	2,005,013	100	
Mark-to-market adjustments on acquisition			16,905		
Financing costs			(17,682)		
			$ 2,004,236		
Current			$ 219,347		
Non-current			1,784,889		
			$ 2,004,236		

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

9. Secured debt (continued):

	2013	2012
Mortgages at fixed rates:		
Mortgages (principal)	$ 1,851,417	$ 1,790,673
Interest rates	1.96% - 10.00%	2.10% - 10.00%
Weighted average interest rate	5.10%	5.31%
Mortgages at variable rates:		
Mortgages (principal)	$ 153,596	$ 154,850
Interest rates	Lender COF plus 2.00% to prime plus 2.50%	Lender COF plus 2.00% to prime plus 2.50%
Weighted average interest rate	4.09%	4.35%
Blended weighted average rate	5.02%	5.23%

(b) Credit Facility:

On June 22, 2013, Chartwell renewed its Credit Facility for a two-year term expiring on June 22, 2015 and increased the borrowing capacity to $95,000. Under the renewal terms, the Credit Facility bears interest at the bank's prime rate plus 0.95% or the applicable banker's acceptance rate plus 1.95%. 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. At December 31, 2013, the maximum available borrowing capacity under the Credit Facility was $91,745 (2012 - $85,000) based on the security provided. Of this capacity, $2,686 (2012 - $2,807) has been allocated to support various letters of credit issued by Chartwell. As at December 31, 2013, $27,000 (2012 - $77,000) was outstanding under the Credit Facility.

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

10. Convertible debentures:

Chartwell has elected to designate convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. As inputs are unadjusted quoted prices of identical instruments in active markets convertible debentures are considered Level 1 in the fair value hierarchy. The market price of the 5.7% convertible debentures at December 31, 2013 was $106.67 (2012 - $109.00).

Chartwell has the following series of convertible debentures outstanding:

	2013	2012
5.7% convertible debentures:		
Principal	$ 135,000	$ 135,000
Fair value	144,005	147,150

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. 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.

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

10. Convertible debentures (continued):

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.

11. Accounts payable and other liabilities:

	Note	2013	2012
Accounts payable and accrued liabilities		$ 104,518	$ 97,049
Resident deposits		3,220	3,688
Deferred revenue		9,827	9,753
Deferred Trust Units	(a)	6,080	5,292
Restricted Trust Units	(b)	856	732
LTIP option component	(c)	4,519	6,479
		$ 129,020	$ 122,993

11. Accounts payable and other liabilities (continued):

(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, 2013 was $10.00.

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

11. Accounts payable and other liabilities (continued):

The following table summarizes the Deferred Trust Unit activity:

	Units outstanding	Amount
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
Units granted	94,378	958
Reinvested distributions	28,103	286
Change in fair value	–	(456)
Balance, December 31, 2013	607,986	$ 6,080

(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.

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

11. 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, 2013, 79,880 notional Trust Units were issued (2012 - 85,841), 13,859 notional Trust units were cancelled (2012 - 15,269), 11,403 notional Trust units were issued related to reinvested distributions (2012 - 13,499), and 62,792 notional Trust units vested and were paid out (2012 - 97,734). At December31, 2013, 168,978 notional Trust Units remained outstanding (2012 - 154,346).

(c) LTIP (note 13(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:

	2013	2012
Expected volatility	16.65% - 21.65%	13.70% - 17.10%
Risk free rate	1.41% - 3.13%	1.50% - 2.20%
Distribution yield	5.76% - 6.48%	4.00% - 4.90%

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

12. 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. As inputs are unadjusted quoted prices of identical instruments in active markets Class B units are considered Level 1 in the fair value hierarchy. The market ask price of Chartwell Units as at December 31, 2013 was $10.00 (2012 - $10.90).

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, 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
Exchange of Class B Units into Trust Units	(20,816)	(228)
Change in fair value	–	(1,491)
Balance, December 31, 2013	1,658,312	$ 16,583

13. 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.

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

13. Unitholders' equity and LTIP (continued):

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
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
Trust Units issued under DRIP	1,920,043	19,058
Trust Units issued in exchange of Class B Units	20,816	228
Trust Units released on settlement of LTIP receivable	261,268	2,593
Balance, December 31, 2013	171,643,982	$ 1,724,564

(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 is payable over a term not to exceed 10 years. Participants are required to pay interest on the unpaid balance of the purchase price at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time LTIP Units are issued. All distributions on Trust Units under the LTIP are applied as payments, first of interest and then of balance toward reduction of the principal of the LTIP receivable. Participants may prepay the 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 balance of 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. In 2013, the LTIP was amended, so that all units issued subsequent to June 30, 2013 vest immediately.

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

13. Unitholders' equity and LTIP (continued):

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,838,530 were available to be issued at December 31, 2013.

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
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
Trust Units issued under LTIP	296,023	3,215
Trust Units surrendered for cancellation under LTIP	(349,145)	(4,753)
Trust Units released on settlement of LTIP receivable	(261,268)	(2,593)
Balance, December 31, 2013	1,893,074	$ 21,294

The compensation expense attributable to the LTIP of $563 for the year ended December 31, 2013 (2012 - $240) 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%.

13. 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 20). Chartwell incurred transaction-related costs of $8,776, before tax effect, recorded in unitholders' equity.

14. 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. These segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column adjusts the segmented results to account for these joint ventures using the equity method of accounting as applied in these consolidated financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses.

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

14. Segmented information (continued):

2013	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon-ciliation	Total
Revenue:								
Resident	$ 487,081	$ 210,691	$ 224,888	$ 922,660	$ –	$ 922,660	$ (103,546)	$ 819,114
Management and other fees	–	–	–	–	7,925	7,925	–	7,925
Lease revenue from joint ventures	–	–	–	–	–	–	31,386	31,386
Mezzanine loan interest	–	–	–	–	154	154	–	154
	487,081	210,691	224,888	922,660	8,079	930,739	(72,160)	858,579
Expenses:								
Direct operating	317,597	182,510	151,125	651,232	–	651,232	(65,244)	585,988
General, administrative and trust	–	–	–	–	31,016	31,016	–	31,016
	317,597	182,510	151,125	651,232	31,016	682,248	(65,244)	617,004
Income (loss) before the undernoted[(1)]	169,484	28,181	73,763	271,428	(22,937)	248,491	(6,916)	241,575
Finance costs (recovery):								
Contractual interest	55,472	12,993	40,719	109,184	6,841	116,025	(2,370)	113,655
Other	(445)	(1,616)	1,117	(944)	1,065	121	(60)	61
Property lease expense	126	269	2,278	2,673	–	2,673	–	2,673
Other expense (income):								
Interest	(228)	(3,750)	(14)	(3,992)	(109)	(4,101)	76	(4,025)
Other	11,774	–	(65,865)	(54,091)	736	(53,355)	48,118	(5,237)
Depreciation and amortization	103,692	12,010	54,279	169,981	2,583	172,564	(3,611)	168,953
Share of joint venture income	–	–	–	–	–	–	(49,069)	(49,069)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	40	(294)	–	(254)	(9,326)	(9,580)	–	(9,580)
	170,431	19,612	32,514	222,557	1,790	224,347	(6,916)	217,431
Income (loss) before income taxes	(947)	8,569	41,249	48,871	(24,727)	24,144	–	24,144
Income tax expense	–	–	260	260	–	260	–	260
Net income (loss)	$ (947)	$ 8,569	$ 40,989	$ 48,611	$ (24,727)	$ 23,884	$ –	$ 23,884
Expenditures for non-current assets:								
Acquisition properties	$ 67,500	$ –	$ –	$ 67,500	$ –	$ 67,500	$ –	$ 67,500
Capital additions	56,549	12,541	13,543	82,633	3,912	86,545	(2,042)	84,503

(1) 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), share of joint venture loss (income) and income tax expense (benefit).

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2013 and 2012

14. Segmented information (continued):

2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon-ciliation	Total
Revenue:								
Resident	$ 429,609	$ 206,166	$ 238,728	$ 874,503	$ –	$ 874,503	$ (93,464)	$ 781,039
Management and other fees	–	–	–	–	7,725	7,725	–	7,725
Lease revenue from joint ventures	–	–	–	–	–	–	19,933	19,933
Mezzanine loan interest	–	–	–	–	1,493	1,493	–	1,493
	429,609	206,166	238,728	874,503	9,218	883,721	(73,531)	810,190
Expenses:								
Direct operating	276,673	179,307	159,334	615,314	–	615,314	(57,528)	557,786
General, administrative and trust	–	–	–	–	26,166	26,166	–	26,166
	276,673	179,307	159,334	615,314	26,166	641,480	(57,528)	583,952
Income (loss) before the undernoted[(1)]	152,936	26,859	79,394	259,189	(16,948)	242,241	(16,003)	226,238
Finance costs (recovery):								
Contractual interest	50,871	13,436	51,106	115,413	3,444	118,857	(7,922)	110,935
Other	44	(1,719)	1,132	(543)	8,853	8,310	(155)	8,155
Property lease expense	126	269	2,109	2,504	–	2,504	–	2,504
Other expense (income):								
Interest	(234)	(3,405)	–	(3,639)	(541)	(4,180)	69	(4,111)
Other	29,491	–	882	30,373	(5,899)	24,474	(148)	24,326
Depreciation and amortization	117,923	9,217	75,186	202,326	1,594	203,920	(6,741)	197,179
Share of joint venture income	–	–	–	–	–	–	(1,106)	(1,106)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	–	(456)	–	(456)	49,835	49,379	–	49,379
	198,221	17,342	130,415	345,978	57,286	403,264	(16,003)	387,261
Income (loss) before income taxes	(45,285)	9,517	(51,021)	(86,789)	(74,234)	(161,023)	–	(161,023)
Income tax expense (recovery)	–	–	296	296	(21,977)	(21,681)	–	(21,681)
Net income (loss)	$ (45,285)	$ 9,517	$ (51,317)	$ (87,085)	$ (52,257)	$ (139,342)	$ –	$ (139,342)
Expenditures for non-current assets:								
Acquisition properties	$ 455,203	$ –	$ –	$ 455,203	$ –	$ 455,203	$ –	$ 455,203
Capital additions	63,678	18,960	10,549	93,187	4,389	97,576	(844)	96,732

(1) 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), share of joint venture loss (income) and income tax expense (benefit).

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

14. Segmented information (continued):

2013	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon-ciliation	Total
Total assets	$ 1,869,445	$ 290,022	$ 692,080	$ 2,851,547	$ 11,675	$ 2,863,222	$ (25,260)	$ 2,837,962
Total liabilities	$ 1,273,330	$ 234,069	$ 633,284	$ 2,140,683	$ 213,305	$ 2,353,988	$ (25,260)	$ 2,328,728

2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon-ciliation	Total
Total assets	$ 1,859,174	$ 293,810	$ 844,878	$ 2,997,862	$ 7,426	$ 3,005,288	$ (120,487)	$ 2,884,801
Total liabilities	$ 1,183,718	$ 236,905	$ 763,281	$ 2,183,904	$ 267,259	$ 2,451,163	$ (120,487)	$ 2,330,676

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

15. 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:

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	$ 2,004,236	$ 2,025,702	$ 1,949,615	$ 2,065,551
Credit Facility	27,000	27,000	77,000	77,000

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.

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

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, 2013, the mortgages payable were discounted using rates between 2.03% and 5.49% (2012 - 1.94% and 4.86%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items the fair value of mortgages is Level 2 in the fair value hierarchy.

The fair value of the credit facility approximates its carrying value, and is considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

15. 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 rent and care legislation 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, 2012.

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.

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

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. At December 31, 2013, outstanding residents receivables are $3,757 (2012 - $2,998), net of an impairment reserve of $1,620 (2012 - $1,390).

(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.

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

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, 2013, Chartwell had $8,601 in cash and $62,059 available and undrawn on the Credit Facility (note 9(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's major contractual obligations as at December 31, 2013 are detailed in note 22, Commitments and contingencies.

15. 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, 2013, $180,596 (2012 - $231,850) 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.

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

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

At December 31, 2013, Chartwell's interest-bearing financial instruments were:

	Carrying amount 2013	2012
Fixed-rate instruments:		
Financial liabilities	$ 1,986,417	$ 1,925,673
Variable-rate instruments:		
Financial liabilities	$ 180,596	$ 231,850

A change in interest rates at December 31, 2013 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, 2013 for the variable-rate financial instruments would have increased/decreased the loss for the year by $1,806 (on a pre-tax basis).

(b) Foreign currency rate risk:

At December 31, 2013, through its United States Operations, 24% (2012 - 28%) of Chartwell's assets and 28% (2012 - 32%) of Chartwell's mortgages payable were held in the United States and 24% (2012 - 27%) 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 United States Operations or part of the net investment in United States Operations.

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

15. 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, 2013.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in United States Operations at December 31, 2013:

	U.S. dollar
Cash	$ 8,283
Net loans receivable from United States Operations	1,750
Net investment in United States Operations	58,435
Net exposure	$ 68,468

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	$ 306
Change in other comprehensive loss	584

15. 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, 2013, Chartwell received $190,218 (2012 - $183,618) 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.

16. 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 also has access to a revolving Credit Facility that is secured by first and second charges on certain of its properties.

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

16. 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. Under the terms of Chartwell's loan agreements with these lenders, Chartwell is required to meet certain financial and non-financial covenants. These covenants include: maintaining minimum equity, required debt service coverage ratios, indebtedness ratios, minimum liquidity, intended property use and other covenants. There have been no changes in Chartwell's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2013 and 2012:

	2013	2012	Increase (decrease)
Debt to GBV, excluding convertible debentures	53.1%	54.3%	(1.2)%
Debt to GBV, including convertible debentures	56.6%	57.9%	(1.3)%
Interest coverage ratio	2.12x	2.00x	0.12x

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

16. Capital structure financial policies (continued):

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, adjusted for Chartwell's line-by-line share of its joint ventures. Debt is determined on a consolidated basis for Chartwell and its consolidated subsidiaries.

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), adjusted for Chartwell's line-by-line share of its joint ventures, 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.

17. Personnel expenses:

The analysis of employee benefits expense for the year ended December 31, 2013, included in the consolidated statements of comprehensive loss under direct operating expenses and general, administrative and trust expenses, is as follows:

	2013	2012
Salaries and wages	$ 400,331	$ 379,681
Post-employment benefits (defined contribution plans)	4,864	4,907
Unit-based compensation	2,542	2,574
	$ 407,737	$ 387,162

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

18. Other expense (income):

	2013	2012
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivable	$ –	$ (9,399)
Gain on disposal of assets	(22,186)	(325)
Interest income on loans and receivables	(4,025)	(4,111)
Other income	(26,211)	(13,835)
Impairment of PP&E (note 4)	11,502	21,203
Transaction costs arising on business acquisitions and dispositions	5,447	12,847
Other expense	16,949	34,050
Other expense (income)	$ (9,262)	$ 20,215

On October 2, 2013, Chartwell completed the previously announced sale of a seven-property portfolio in the United States. The sale price was $83,586 (U.S. $80,900) and was satisfied by the purchasers assuming mortgages in the amount of $54,450 (U.S. $52,700). On closing, $7,749 (U.S. $7,500) of the proceeds was used to repay the mortgage debt on one of the sold properties. The balance of the purchase price, subject to closing adjustments and escrow requirements, was received in cash. As a result of this sale, a gain of $21,963 (U.S. $21,257), before transaction costs, is recorded in other expense (income).

During 2013, Chartwell recorded a gain on the disposal of various other assets for $223.

In 2013, Chartwell recorded impairment of $11,502 for three properties, and land held for development located in Canada and the United States (note 4).

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

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

19. Finance costs:

	2013	2012
Contractual mortgage interest expense	$ 101,727	$ 100,879
Interest expense on convertible debentures	7,695	7,193
Credit Facility and other interest expense (a)	4,233	2,863
	113,655	110,935
Interest capitalized to properties under development	(1,286)	(1,843)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	452	1,484
Distributions on Class B Units recorded as interest expense	895	909
Distributions on subscription receipts	–	2,242
Convertible debenture issuance costs	–	5,363
Total finance costs	$ 113,716	$ 119,090

(a) In 2013 Chartwell early refinanced certain 2013 and 2014 maturing mortgages incurring early mortgage defeasance costs of $2,474, included in other interest expense.

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

	2013	2012
Changes in fair value of convertible debentures	$ (3,146)	$ 10,725
Changes in fair value of interest rate swap	(254)	(456)
Unrealized foreign exchange loss (gain)	(1,515)	1,710
Changes in fair value of LTIP option component	(2,716)	2,701
Changes in fair value of Class B Units	(1,491)	4,034
Changes in fair value of Deferred Trust Units	(458)	1,018
Change in fair value of subscription receipts (note 13)	–	29,647
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	$ (9,580)	$ 49,379

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

21. Income taxes:

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

	2013	2012
Deductible temporary differences	$ 20,685	$ 11,473
Losses carried forward	29,603	26,314
	$ 50,288	$ 37,787

Chartwell has non-capital loss carryforwards in Canada of $17,237, which will expire between 2015 and 2033. Chartwell also has capital loss carryforwards in Canada of $12,366, 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 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:

	2013	2012
Deductible temporary differences	$ 129,221	$ 140,257
Net operating losses	82,125	77,097
Capital losses	–	23,125
Total	$ 211,346	$ 240,479

Net operating losses will expire between 2025 and 2033. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which these U.S. corporate subsidiaries can utilize these tax benefits.

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

21. Income taxes (continued):

The provision for income taxes in the consolidated statements of comprehensive loss represents an effective tax rate different than the Canadian SIFT tax rate of 49.53% (2012 - 49.53%) The differences for the years ended December 31 are as follows:

	2013	2012
Income (loss) before income taxes	$ 24,144	$ (161,023)
Income tax recovery at Canadian SIFT tax rates	$ 11,959	$ (79,755)
Effect of permanent differences	(9,757)	785
Tax benefits not recognized	5,275	31,408
International income tax rate differences	(4,768)	5,897
Prior year adjustments	(21)	(489)
Fair value adjustments	(3,130)	19,996
Other	702	477
	$ 260	$ (21,681)

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

21. Income taxes (continued):

With the adoption of IFRS 11 consolidated financial statements commencing January 1, 2013, certain jointly controlled properties are reported under the equity method. The following table reflects the adjustments as a result of the application of IFRS 11 to the prior period disclosure in the consolidated financial statements relating to the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities for the year ended December 31, 2012:

	Pre IFRS 11	Post IFRS 11
Deferred tax assets:		
Mortgages payable	$ 7,825	$ 7,885
Issue costs	7,585	7,585
PP&E	18,360	21,905
Other	4,367	4,310
	38,137	41,685
Deferred tax liabilities:		
Capital funding receivable	(23,531)	(23,531)
Intangible assets	(13,129)	(13,129)
Investment in joint ventures	–	(3,548)
Other	(1,477)	(1,477)
	(38,137)	(41,685)
	$ –	$ –

Chartwell has temporary differences associated with its outside investment in these jointly controlled properties. No deferred taxes have been provided with respect to such temporary differences since Chartwell is able to control the timing of the reversal of these temporary differences, and such reversal is not probable in the foreseeable future.

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

22. Commitments and contingencies:

Chartwell's major contractual obligations as at December 31, 2013 are detailed in the following table:

	Note	Total	2014	2015	2016	2017	2018	Thereafter
Mortgages payable	9(a)	$ 2,005,013	$ 218,564	$ 369,597	$ 363,444	$ 250,197	$ 109,093	$ 694,118
Accounts payable and other liabilities	11	130,627	130,627	–	–	–	–	–
Distributions payable		7,884	7,884	–	–	–	–	–
Convertible debentures	10	135,000	–	–	–	–	135,000	–
Credit Facility	9(b)	27,000	–	27,000	–	–	–	–
Purchase obligations	22(b)	9,498	9,498	–	–	–	–	–
Property operating leases	22(a)(i)	6,804	1,701	1,701	1,701	1,701	–	–
Other operating leases	22(a)(iii)	10,096	1,321	1,306	1,164	1,129	1,129	4,047
Land leases	22(a)(ii)	15,270	395	395	395	395	395	13,295
Total contractual obligations		$ 2,347,192	$ 369,990	$ 399,999	$ 366,704	$ 253,422	$ 245,617	$ 711,460

22. Commitments and contingencies (continued):

(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 $1,701 (U.S. $1,597) per annum and a total of $6,802 (U.S. $6,389) 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, after lease expiration date.

(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. In aggregate, annual payments on these leases vary from $1,129 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.

22. 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, 2013, the remaining commitments under these contracts amounted to approximately $9,498.

(c) Letters of credit:

As at December 31, 2013, Chartwell was contingently liable for letters of credit in the amount of $2,686 (2012 - $2,807). Chartwell was also contingently liable for letters of credit relating to its obligation under certain mortgages in the US of $9,644 ($9,067 U.S.).

(d) Other contracts:

Brookdale is the manager of 39 Chartwell communities in the United States. The terms of the management contracts entered into are for approximately 10 years, with a maturity date of December 31, 2021. The base management fee for the properties under contract is 5% of gross revenue. The contracts include an incentive fee mechanism, whereby Brookdale can earn an additional fee of up to 2% of gross revenue upon the achievement of specified annual operating targets. Management fees may also be reduced by up to 1% if such annual operating targets are not achieved.

(e) Litigation and claims:

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

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

23. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Officers' and Directors compensation	$ 4,302	$ 4,918
Post-employment benefits	58	64
Other long term benefits	458	936
Unit-based payments	105	87

Chartwell management has a senior executive committee, comprised of officers of Chartwell, with the responsibility to provide strategic direction and oversight to Chartwell. The above table includes the total compensation of members of the senior executive committee, and directors of Chartwell.

24. Subsequent events:

On January 2, 2014, Chartwell completed the acquisition of the remaining 66.67% interest in Robert Speck, a 113-unit independent living residence located in Mississauga, Ontario. The purchase price before closing costs was $21,333 and was partially settled through the assumption of a $15,203 mortgage, with the remaining portion of the purchase price, net of working capital adjustments, settled in cash.

On February 27, 2014, Chartwell entered into a definitive agreement to sell 100% of a property located in Ontario for $24,500. Chartwell owns a 50% interest in this property. The closing is expected in Q3 2014.

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

25. IFRS 11 impact on the consolidated financial statements:

Chartwell adopted IFRS 11 for the annual consolidated financial statements commencing January 1, 2013 (notes 2 and 8). The following tables detail the impact of the adoption of IFRS 11 on the consolidated balance sheet as at December 31, 2012 and the consolidated statement of comprehensive loss for the year ended December 31, 2012 and the consolidated balance sheet as at January 1, 2012:

Consolidated balance sheet information:

December 31, 2012	As previously reported (Pre-IFRS 11)	Add (deduct) proportionately consolidated joint ventures	Investment in joint ventures under IFRS	As restated (Post-IFRS 11)
Assets				
Current assets:				
Cash and cash equivalents	$ 5,309	$ (5,284)	$ –	$ 25
Trade and other receivables	20,296	674	–	20,970
Capital funding receivable	4,396	–	–	4,396
Other assets	28,318	(2,459)	–	25,859
Assets held for sale	97,404	(97,404)	–	–
Total current assets	155,723	(104,473)	–	51,250
Non-current assets:				
Other assets	7,186	–	–	7,186
Capital funding receivable	56,661	–	–	56,661
Investment in joint ventures	–	–	33,498	33,498
Intangible assets	50,775	–	–	50,775
PP&E	2,734,943	(49,512)	–	2,685,431
Total non-current assets	2,849,565	(49,512)	33,498	2,833,551
Total assets	$ 3,005,288	$ (153,985)	$ 33,498	$ 2,884,801
Liabilities and Unitholders' Equity				
Current liabilities:				
Credit Facility	$ 77,000	$ –	$ –	$ 77,000
Accounts payable and other liabilities	121,072	1,921	–	122,993
Distributions payable	7,800	–	–	7,800
Mortgages payable	282,223	(13,197)	–	269,026
Deferred consideration on business combinations	520	–	–	520
Liabilities held for sale	99,969	(99,969)	–	–
Obligations to joint ventures	–	–	7,296	7,296
Total current liabilities	588,584	(111,245)	7,296	484,635
Non-current liabilities:				
Mortgages payable	1,697,127	(16,538)	–	1,680,589
Convertible debentures	147,150	–	–	147,150
Class B Units	18,302	–	–	18,302
Total non-current liabilities	1,862,579	(16,538)	–	1,846,041
Total liabilities	2,451,163	(127,783)	7,296	2,330,676
Untiholders' equity	554,125	–	–	554,125
Total liabilities and untiholders' equity	$ 3,005,288	$ (127,783)	$ 7,296	$ 2,884,801

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

25. IFRS 11 impact on the consolidated financial statements (continued):

Consolidated statement of comprehensive loss information for the year:

December 31, 2012	As previously reported (Pre-IFRS 11)	Deduct (add) proportionately consolidated joint ventures	Investment in joint ventures under IFRS	As restated (Post-IFRS 11)
Revenue:				
Resident	$ 874,503	$ 93,464	$ –	$ 781,039
Management and other fees	7,725	–	–	7,725
Lease revenue from joint ventures	–	(19,933)	–	19,933
Mezzanine loan interest	1,493	–	–	1,493
	883,721	73,531	–	810,190
Expenses:				
Direct operating	615,314	57,528	–	557,786
General, administrative and Trust	26,166	–	–	26,166
	641,480	57,528	–	583,952
Income before the undernoted[(1)]	242,241	16,003	–	226,238
Finance costs	127,167	8,077	–	119,090
Property lease expense	2,504	–	–	2,504
Other expense	20,294	79	–	20,215
Depreciation of PP&E	200,383	6,741	–	193,642
Amortization of intangible assets	3,537	–	–	3,537
Changes in fair values of financial instruments and unrealized foreign exchange losses	49,379	–	–	49,379
Share of joint venture gain	–	–	1,106	(1,106)
Loss before income taxes	(161,023)	1,106	(1,106)	(161,023)
Income tax expense (benefit):				
Current	296	–	–	296
Deferred	(21,977)	–	–	(21,977)
	(21,681)	–	–	(21,681)
Loss for the period	(139,342)	1,106	(1,106)	(139,342)
Other comprehensive loss:				
Unrealized foreign currency loss on translation of foreign operations	(1,504)	–	–	(1,504)
Total comprehensive loss	$ (140,846)	$ 1,106	$ (1,106)	$ (140,846)

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

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

25. IFRS 11 impact on the consolidated financial statements (continued):

Consolidated balance sheet information:

January 1, 2012	December 31, 2011, as previously reported (Pre-IFRS 11)	Deduct proportionately consolidated joint ventures	Investment in joint ventures under IFRS	January 1, 2012 (Post-IFRS 11)
Assets				
Current assets:				
Cash and cash equivalents	$ 10,687	$ (1,847)	$ –	$ 8,840
Trade and other receivables	13,144	(2,554)	–	10,590
Capital funding receivable	3,743	–	–	3,743
Mezzanine loans	9,653	–	–	9,653
Other assets	27,153	(1,642)	–	25,511
Total current assets	64,380	(6,043)	–	58,337
Non-current assets:				
Other assets	7,344	–	–	7,344
Capital funding receivable	55,377	–	–	55,377
Investment in joint ventures	–	–	27,963	27,963
Intangible assets	52,879	–	–	52,879
PP&E	2,526,541	(146,831)	–	2,379,710
Total non-current assets	2,642,141	(146,831)	27,963	2,523,273
Total assets	$ 2,706,521	$ (152,874)	$ 27,963	$ 2,581,610
Liabilities and Unitholders' Equity				
Current liabilities:				
Credit facility	$ 53,000	$ –	$ –	$ 53,000
Accounts payable and other liabilities	112,497	(590)	–	111,907
Distributions payable	6,596	–	–	6,596
Mortgages payable	205,373	(14,223)	–	191,150
Convertible debentures	76,425	–	–	76,425
Deferred consideration on business combinations	5,328	–	–	5,328
Obligations to joint venture	–	–	6,676	6,676
Total current liabilities	459,219	(14,813)	6,676	451,082
Non-current liabilities:				
Mortgages payable	1,670,893	(116,774)	–	1,554,119
Class B units	14,292	–	–	14,292
Deferred tax liabilities	26,325	–	–	26,325
Total non-current liabilities	1,711,510	(116,774)	–	1,594,736
Total liabilities	2,170,729	(131,587)	6,676	2,045,818
Unitholders' equity	535,792	–	–	535,792
Total liabilities and unitholders' equity	$ 2,706,521	$ (131,587)	$ 6,676	$ 2,581,610