

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

Three-month periods ended March 31, 2014 and 2013
(Unaudited)

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Balance Sheets
(In thousands of Canadian dollars)
(Unaudited)

	Note	March 31, 2014	December 31, 2013
Assets			
Current assets:			
Cash		\$ 4,185	\$ 8,601
Trade and other receivables		22,910	17,881
Capital funding receivable		4,764	4,698
Other assets	4	23,178	26,668
Assets held for sale	9	72,487	–
Total current assets		127,524	57,848
Non-current assets:			
Other assets	4	8,764	7,397
Capital funding receivable		65,265	66,481
Investment in joint ventures	5	23,018	28,319
Intangible assets		49,937	49,777
Property, plant and equipment ("PP&E")	3	2,580,136	2,628,140
Total non-current assets		2,727,120	2,780,114
Total assets		\$ 2,854,644	\$ 2,837,962
Liabilities and Unitholders' Equity			
Current liabilities:			
Secured revolving operating credit facilities ("Credit Facilities")	6(b)	\$ 85,617	\$ 27,000
Accounts payable and other liabilities	8	120,651	129,020
Distributions payable		7,912	7,884
Mortgages payable	6(a)	199,617	219,347
Liabilities related to assets held for sale	9	21,411	–
Total current liabilities		435,208	383,251
Non-current liabilities:			
Mortgages payable	6(a)	1,778,176	1,784,889
Convertible debentures	7	146,637	144,005
Class B Units of Chartwell Master Care LP ("Class B Units")	10	17,280	16,583
Total non-current liabilities		1,942,093	1,945,477
Total liabilities		2,377,301	2,328,728
Unitholders' equity	11	477,343	509,234
Subsequent events	18		
Total liabilities and unitholders' equity		\$ 2,854,644	\$ 2,837,962

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Huw Thomas" _____ Trustee "Sidney Robinson" _____ Trustee

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

(Unaudited)

		Three-month periods ended March 31,	
	Note	2014	2013 (Restated - note 1)
Revenue:			
Resident		\$ 207,675	\$ 199,374
Management and other fees		1,848	2,042
Lease revenue from joint ventures	5	8,030	7,475
Mezzanine loan interest		60	62
		<u>217,613</u>	<u>208,953</u>
Expenses:			
Direct operating		155,277	148,591
General, administrative and trust		9,935	7,876
		<u>165,212</u>	<u>156,467</u>
Income before the undernoted ⁽¹⁾		52,401	52,486
Finance costs	15	28,467	27,820
Property lease expense		672	656
Other expense (income)	14	(2,171)	414
Depreciation of PP&E	3	41,585	38,875
Amortization of intangible assets		461	434
Changes in fair values of financial instruments and unrealized foreign exchange losses	16	2,424	564
Share of net income from joint ventures	5	(27)	(48,542)
Income (loss) before income taxes		(19,010)	32,265
Income tax expense (benefit):	17		
Current		(2,140)	63
Deferred		—	—
		<u>(2,140)</u>	<u>63</u>
Income (loss) for the period		(16,870)	32,202
Items to be reclassified to profit or loss in subsequent periods:			
Other comprehensive income:			
Unrealized foreign currency gain on translation of foreign operations		2,754	1,436
Total comprehensive net income (loss)		\$ (14,116)	\$ 33,638

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

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Three-month period ended March 31, 2014	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, 2013	\$ 1,724,564	\$ 21,294	\$ (17,143)	\$ (513,258)	\$ (2,373)	\$ (709,794)	\$ 5,944	\$ 509,234
Loss for the period	–	–	–	(16,870)	–	–	–	(16,870)
Other comprehensive income	–	–	–	–	2,754	–	–	2,754
Distributions to unitholders	–	–	–	–	–	(23,442)	–	(23,442)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	4,993	–	–	–	–	–	–	4,993
Trust Units issued on vesting of deferred trust units ("DTU")	431	–	–	–	–	–	–	431
Trust Units issued under the Long Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	35	1,131	(1,141)	–	–	–	4	29
Interest on LTIP receivable	–	–	(42)	–	–	–	–	(42)
Distributions applied against LTIP receivable	–	–	256	–	–	–	–	256
Unitholders' equity, March 31, 2014	\$ 1,730,023	\$ 22,425	\$ (18,070)	\$ (530,128)	\$ 381	\$ (733,236)	\$ 5,948	\$ 477,343

During the three-month period ended March 31, 2014, distributions were declared and paid at \$0.045 per unit per month. In April 2014, distributions were declared at \$0.045 per unit totalling \$7,921.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (continued)

(In thousands of Canadian dollars)

(Unaudited)

Three-month period ended March 31, 2013 (Restated - note 1)	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2013	\$ 1,702,685	\$ 25,425	\$ (19,533)	\$ (537,142)	\$ (5,476)	\$ (616,725)	\$ 4,891	\$ 554,125
Net income	–	–	–	32,202	–	–	–	32,202
Other comprehensive income	–	–	–	–	1,436	–	–	1,436
Distributions to unitholders	–	–	–	–	–	(23,174)	–	(23,174)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	5,705	–	–	–	–	–	–	5,705
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	37	(1,189)	956	–	–	–	(59)	(255)
Interest on LTIP receivable	–	–	(48)	–	–	–	–	(48)
Distributions applied against LTIP receivable	–	–	298	–	–	–	–	298
Unitholders' equity, March 31, 2013	\$ 1,708,655	\$ 24,236	\$ (18,327)	\$ (504,940)	\$ (4,040)	\$ (639,899)	\$ 4,832	\$ 570,517

During the three-month period ended March 31, 2013, distributions were declared and paid at \$0.045 per unit per month. In April 2013, distributions were declared at \$0.045 per unit totalling \$7,829.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three-month periods ended March 31,	
		2014	2013
			(Restated - note 1)
Cash provided by (used in):			
Operating activities:			
Income (loss) for the period		\$ (16,870)	\$ 32,202
Items not affecting cash:			
Depreciation and amortization	3	42,046	39,309
Other expense (income)	14	(2,171)	414
Finance costs	15	28,467	27,820
Transaction costs		(899)	(1,374)
Mezzanine loan interest		(60)	(62)
Non-cash compensation expense		900	611
Changes in fair values of financial instruments and unrealized foreign exchange losses	16	2,424	564
Share of net income from joint ventures	5	(27)	(48,542)
Current income taxes		(2,140)	63
Other		(1,210)	–
Change in trade and other receivables		(3,105)	(1,815)
Change in other assets		(278)	557
Change in accounts payable and other liabilities		(4,809)	(6,062)
		42,268	43,685
Interest received		949	960
Interest paid		(29,550)	(29,824)
Income taxes paid		(77)	(63)
Net cash provided by operating activities		13,590	14,758
Financing activities:			
Proceeds from mortgage financing		17,379	89,142
Mortgage maturity repayments		(48,072)	(51,989)
Changes to Credit Facilities		58,617	(39,500)
Scheduled mortgage principal repayments		(14,522)	(13,535)
Net additions to finance costs		(1,176)	(1,953)
Distributions paid		(18,165)	(17,150)
Deposits and repayments received under LTIP		42	26
Net cash used in financing activities		(5,897)	(34,959)
Investing activities:			
Acquisition of assets under business combinations, net		(6,133)	–
Additions to PP&E and intangible assets		(19,365)	(8,737)
Proceeds from capital funding receivable		1,150	1,043
Change in restricted cash		3,243	129
Proceeds from disposal of PP&E		1,386	–
Mezzanine loan collections		1,245	–
Distributions received, net of Contributions, from joint ventures	5	5,328	40,300
Net cash provided by (used in) investing activities		(13,146)	32,735
Increase (decrease) in cash		(5,453)	12,534
Foreign exchange gain on U.S. dollar-denominated cash		1,037	701
Cash, beginning of period		8,601	25
Cash, end of period		\$ 4,185	\$ 13,260

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Three-month periods ended March 31, 2014 and 2013

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.

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on May 8, 2014. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2013, with the exception of the impact of adopting the following accounting standards and amendments to standards:

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. Chartwell has assessed this amendment and determined there is no impact on its condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

1. Basis of preparation (continued):

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

Effective January 1, 2014, Chartwell adopted IFRIC 21, which provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities, and Contingent Assets. IFRIC 21 is to be applied retrospectively. The adoption of IFRIC 21 requires Chartwell to recognize property taxes when it becomes obligated for the payment of property taxes. Chartwell assessed the property tax legislation in Canada and determined that for Canadian properties that the obligating event occurs throughout the year pro rata and, therefore, the adoption of IFRIC 21 did not result in an adjustment to Canadian property taxes. Based on property tax legislation in the United States, the obligation occurs at a single point and, therefore, resulted in recognizing property taxes earlier than previously recorded for properties in various United States jurisdictions.

Restatement of comparative figures:

The impact of the adoption of IFRIC 21 was an increase in direct operating expenses on the condensed consolidated interim statement of comprehensive income (loss) for the three months ended March 31, 2013 for \$4,943, and a related decrease in unitholders' equity as at March 31, 2013 on the condensed consolidated interim balance sheet and the condensed consolidated interim statement of unitholders' equity of \$4,943.

2. Acquisitions:

On January 2, 2014, Chartwell acquired the remaining 66.67% interest in Robert Speck Retirement Residence ("Robert Speck") from its joint operating partners. The purchase price for 66.67% was \$21,333 and was settled through the assumption of debt of \$15,200 with the remaining balance net of working capital adjustments settled in cash. Upon completion of this transaction Chartwell owned 100% interest in the property.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

2. Acquisitions (continued):

As the Robert Speck acquisition was completed in steps, under IFRS Chartwell is required to remeasure its original 33.33% interest to fair value. This remeasurement has resulted in an increase in value of \$435 which has been recognized as a gain in other expense (income) in condensed consolidated interim statement of comprehensive loss. The net book value of the original 33.33% interest prior to this acquisition was \$10,231.

This transaction is in line with Chartwell's strategy to increase its ownership in existing properties it operates. Robert Speck has contributed revenue of \$707 and net loss of \$437 since the acquisition date. Chartwell continues to assess the initial valuation of the net assets acquired and, consequently, the allocation for accounting purposes may be adjusted in future periods.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

3. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, January 1, 2013	\$ 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
Additions	–	5,386	1,515	11,981	–	18,882
Additions through business combinations	3,370	27,990	640	–	–	32,000
Disposals	(1,114)	(11,369)	(510)	–	–	(12,993)
Derecognition	–	(7,448)	(1,043)	–	–	(8,491)
Transfers	1,875	28,166	1,328	(31,369)	–	–
Transfers to assets held for sale (note 9)	(11,931)	(81,147)	(1,237)	–	–	(94,315)
Exchange differences on translation of United States Operations	3,414	28,075	1,125	18	278	32,910
Balance, March 31, 2014	\$ 332,065	\$ 2,752,854	\$ 90,247	\$ 11,630	\$ 25,638	\$ 3,212,434
Accumulated depreciation and impairment losses						
Balance, January 1, 2013	\$ –	\$ 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
Depreciation	–	36,325	5,260	–	–	41,585
Disposals	–	(985)	(56)	–	–	(1,041)
Derecognition	–	(7,448)	(1,043)	–	–	(8,491)
Transfers to assets held for sale (note 9)	–	(21,771)	(719)	–	–	(22,490)
Exchange differences on translation of United States Operations	–	5,940	494	–	–	6,434
Balance, March 31, 2014	\$ –	\$ 572,984	\$ 55,789	\$ 2,422	\$ 1,103	\$ 632,298
Carrying amounts						
Balance, December 31, 2013	\$ 336,451	\$ 2,202,278	\$ 36,576	\$ 28,578	\$ 24,257	\$ 2,628,140
Balance, March 31, 2014	332,065	2,179,870	34,458	9,208	24,535	2,580,136

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

3. Property, plant and equipment (continued):

In 2014, Chartwell completed the step acquisition of Robert Speck, purchasing the remaining 66.67% interest in the property for \$21,333. As required under IFRS the 100% purchase price of \$32,000 is included in additions through business combinations, and the fair value of the previously held 33.33% interest of \$10,666, is included in disposals in the table above. The cost of the disposed assets under step acquisitions was \$11,607, with related accumulated amortization of \$941.

During the three-month period ended March 31, 2014, Chartwell transferred one property from properties under development to operating.

During the three-month period ended March 31, 2014, Chartwell capitalized \$105 of borrowing costs related to development projects under construction at an average capitalization rate of 5.02%. During the year ended December 31, 2013, Chartwell capitalized \$1,286 of borrowing costs related to development projects under construction, at an average capitalization rate of 5.15%.

4. Other assets:

	March 31, 2014	December 31, 2013
Prepaid expenses and deposits	\$ 11,583	\$ 11,747
Restricted cash	10,112	13,355
Fair value of lease purchase option	5,933	4,547
Other assets	4,314	4,416
	<hr/>	<hr/>
	\$ 31,942	\$ 34,065
Current	\$ 23,178	\$ 26,668
Non-current	8,764	7,397
	<hr/>	<hr/>
	\$ 31,942	\$ 34,065

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.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

5. 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 ⁽²⁾
Oakville	1	Canada	50%	Joint venture ⁽²⁾
Constantia	1	Canada	50%	Joint venture ⁽²⁾
Pickering	1	Canada	50%	Joint venture ⁽²⁾
Valley Vista	1	Canada	50%	Joint operation
Riverside	1	Canada	50%	Joint operation
Churchill	1	Canada	50%	Joint operation
Bristol ⁽³⁾	5	United States	50%	Joint venture ⁽²⁾

⁽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⁾ These joint venture have been structured through separate legal vehicles.

⁽³⁾ 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.

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

	March 31, 2014 ⁽¹⁾	December 31, 2013 ⁽²⁾	March 31, 2013 ⁽¹⁾
Distributions received from joint ventures	\$ 5,328	\$ 47,062	\$ 40,300
Contributions to joint ventures	–	188	–

⁽¹⁾ Three-month period ended

⁽²⁾ Twelve-month period ended

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

5. Joint arrangements (continued):

	March 31, 2014	December 31, 2013
Current assets	\$ 7,034	\$ 9,894
Non-current assets	46,476	47,332
Total assets	\$ 53,510	\$ 57,226
Current liabilities	\$ 14,510	\$ 12,811
Non-current liabilities	15,982	16,096
Total liabilities	\$ 30,492	\$ 28,907
Net investment in joint ventures	\$ 23,018	\$ 28,319

Included in current assets is \$532 (December 31, 2013 - \$3,086) in cash and cash equivalents.

	Three-month period ended March 31,	
	2014	2013
Revenue	\$ 25,601	\$ 27,904
Gain on disposal of assets	—	48,947
Expenses	(25,574)	(28,309)
Chartwell's share of net income from joint ventures	\$ 27	\$ 48,542

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

5. 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 condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable, and in management fee income, as applicable. As of March 31, 2014, \$768 (December 31, 2013 - \$517) of Chartwell's accounts receivable and \$7,454 (December 31, 2013 - \$6,722) of Chartwell's accounts payable relate to entities in which it had an investments in joint ventures. For the three months ended March 31, 2014, \$1,410 (March 31, 2013 - \$1,217) of Chartwell's management fees and other income related to entities in which it had an investment in joint ventures.

Chartwell and Health Care REIT Inc. ("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 is held through separate legal entities (collectively referred to as "Chartwell-HCN operator") and, under IFRS 11, is accounted for as joint ventures using the equity method.

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, \$8,030 for the three-month period ended March 31, 2014 (2013 - \$7,475), 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 net income from joint ventures in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

6. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. The mortgages payable as at March 31, 2014 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2014	\$ 49,033	\$ 105,134	\$ 154,167	8
2015	51,771	342,027	393,798	20
2016	44,902	327,086	371,988	19
2017	38,294	218,340	256,634	13
2018	36,753	72,145	108,898	6
2019	36,014	10,591	46,605	2
2020	36,430	50,988	87,418	4
2021	34,652	50,150	84,802	4
2022	31,293	62,200	93,493	5
2023	26,238	58,992	85,230	4
2024	18,707	58,509	77,216	4
2025	16,191	3,947	20,138	1
Thereafter	157,447	41,736	199,183	10
	<u>\$ 577,725</u>	<u>\$ 1,401,845</u>	<u>\$ 1,979,570</u>	<u>100</u>
Mark-to-market adjustments on acquisition			16,228	
Financing costs			(18,005)	
			<u>\$ 1,977,793</u>	
Current			\$ 199,617	
Non-current			1,778,176	
			<u>\$ 1,977,793</u>	

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

6. Secured debt (continued):

	March 31, 2014	December 31, 2013
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,828,709	\$ 1,851,417
Interest rates	1.96% - 10.00%	1.96% - 10.00%
Weighted average interest rate	5.10%	5.10%
Mortgages at variable rates:		
Mortgages (principal)	\$ 150,861	\$ 153,596
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	4.43%	4.09%
Blended weighted average rate	5.05%	5.02%

(b) Credit Facilities:

	Note	March 31, 2014	December 31, 2013
Canadian Credit Facility	(i)	\$ 59,500	\$ 27,000
U.S. Credit Facility	(ii)	26,117	–
		\$ 85,617	\$ 27,000

- (i) On June 22, 2013, Chartwell renewed its Canadian 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 Canadian 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 Canadian Credit Facility is secured by charges on specific properties. At March 31, 2014, the maximum available borrowing capacity under the Canadian Credit Facility was \$92,012 (December 31, 2013 - \$91,745) based on the security provided. Of this capacity, \$2,696 (December 31, 2013 - \$2,686) has been allocated to support various letters of credit issued by Chartwell. As at March 31, 2014, \$59,500 (December 31, 2013 - \$27,000) was outstanding under the Canadian Credit Facility.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

6. Secured debt (continued):

- (ii) On January 27, 2014, Chartwell entered into a United States Credit Facility expiring on December 31, 2015. The United States Credit Facility bears interest at one month London Interbank Offered Rate plus 3.25%. The credit facility is secured by charges on three specific properties located in the United States. Additional terms include covenants requiring limitations on debt service coverage ratios, liquidity, fixed charge coverage ratio and minimum capital spend on specific properties. At March 31, 2014, maximum available borrowing capacity under the United States Credit Facility was \$26,117 (USD \$23,625). As at March 31, 2014, \$26,117 (USD \$23,625) was outstanding under the United States Credit Facility.

7. Convertible debentures:

Chartwell has elected to designate convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. Since inputs are unadjusted quoted prices of identical instruments in active markets, convertible debentures are considered Level 1 in the fair value hierarchy. The market ask price of the 5.7% convertible debentures at March 31, 2014 was \$108.62 (December 31, 2013 - \$106.67).

Chartwell has the following series of convertible debentures outstanding:

	March 31, 2014	December 31, 2013
5.7% convertible debentures:		
Principal	\$ 135,000	\$ 135,000
Fair value	146,637	144,005

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

8. Accounts payable and other liabilities:

	Note	March 31, 2014	December 31, 2013
Accounts payable and accrued liabilities		\$ 94,872	\$ 104,518
Resident deposits		3,070	3,220
Deferred revenue		10,417	9,827
Deferred Trust Units	(a)	6,227	6,080
Restricted Trust Units	(b)	1,088	856
LTIP option component	(c)	4,977	4,519
		\$ 120,651	\$ 129,020

(a) Deferred Unit Plan:

The deferred unit plan fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The market ask price of Trust Units as at March 31, 2014 was \$10.42 (December 31, 2013 - \$10.00).

	Units outstanding	Amount
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
Units granted	23,107	238
Reinvested distributions	7,456	77
DTU units exchange for Trust Units on vesting	(40,942)	(431)
Change in fair value	–	263
Balance, March 31, 2014	597,607	\$ 6,227

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

8. Accounts payable and other liabilities (continued):

(b) Restricted Unit Plan:

During the three-month period ended March 31, 2014, 194,141 Restricted Trust Units ("RTUs") were granted, 9,848 RTUs were cancelled and 3,061 RTUs were allocated related to reinvested distributions. At March 31, 2014, 356,332 RTUs remained outstanding (December 31, 2013 - 168,978).

(c) LTIP (note 11):

LTIP fair value 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:

	March 31, 2014	December 31, 2013
Expected volatility	20.03% - 25.03%	16.65% - 21.65%
Risk free rate	1.42% - 2.82%	1.41% - 3.13%
Distribution yield	5.36% - 6.21%	5.76% - 6.48%

9. Assets and related liabilities held for sale:

On February 27, 2014, Chartwell and its joint venture partner 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 third quarter of 2014.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

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

On March 11, 2014, Chartwell entered into an agreement to sell a portfolio of 14 retirement residences located in Ontario. The sale price for the portfolio is \$65,950 and will be partially settled through the purchaser's assumption of mortgages with an outstanding balance on March 31, 2014 of \$19,520, and vendor take-back mortgages provided by Chartwell. The balance of the purchase price, subject to customary closing adjustments, will be paid in cash. This transaction closed on May 1, 2014 (note 18).

The following table summarizes the significant assets held for sale and related liabilities on March 31, 2014:

Assets:	
Trade and other receivables	\$ 292
Other assets	370
PP&E, net	71,825
	<hr/>
	\$ 72,487
Liabilities:	
Accounts payable and other liabilities	\$ 1,872
Mortgages payable	19,539
	<hr/>
	\$ 21,411

10. 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. Since 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 March 31, 2014 was \$10.42 (December 31, 2013 - \$10.00). At March 31, 2014, 1,658,312 Class B Units were outstanding (December 31, 2013 - 1,658,312).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

11. Trust Units and LTIP:

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
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
Trust Units issued under DRIP	499,425	4,993
Trust Units issued on vesting of deferred trust units	40,942	431
Trust Units released on settlement of LTIP receivable	4,410	35
Balance, March 31, 2014	172,188,759	\$ 1,730,023

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
Balance, January 1, 2013	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
Trust Units issued under LTIP	114,027	1,166
Trust Units released on settlement of LTIP receivable	(4,410)	(35)
Balance, March 31, 2014	2,002,691	\$ 22,425

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

12. 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 condensed consolidated interim 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.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

12. Segmented information (continued):

Three-month period ended March 31, 2014	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Revenue:								
Resident Management and other fees	\$ 125,240	\$ 52,457	\$ 55,579	\$ 233,276	\$ –	\$ 233,276	\$ (25,601)	\$ 207,675
Lease revenue from joint ventures	–	–	–	–	1,848	1,848	–	1,848
Mezzanine loan interest	–	–	–	–	–	–	8,030	8,030
	–	–	–	–	60	60	–	60
	125,240	52,457	55,579	233,276	1,908	235,184	(17,571)	217,613
Expenses:								
Direct operating	83,058	45,907	42,556	171,521	–	171,521	(16,244)	155,277
General, administrative and trust	–	–	–	–	9,935	9,935	–	9,935
	83,058	45,907	42,556	171,521	9,935	181,456	(16,244)	165,212
Income (loss) before the undernoted ⁽¹⁾	42,182	6,550	13,023	61,755	(8,027)	53,728	(1,327)	52,401
Finance costs (recovery):								
Contractual interest	13,721	3,230	9,233	26,184	2,172	28,356	(388)	27,968
Other	6	(248)	486	244	260	504	(5)	499
Property lease expense	31	67	574	672	–	672	–	672
Other expense (income):								
Interest	(68)	(922)	(1)	(991)	(24)	(1,015)	66	(949)
Other	(548)	(5)	244	(309)	(840)	(1,149)	(73)	(1,222)
Depreciation and amortization	26,569	2,813	13,039	42,421	520	42,941	(895)	42,046
Share of net income from joint venture	–	–	–	–	–	–	(27)	(27)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)								
	(10)	–	(1,212)	(1,222)	3,646	2,424	–	2,424
	39,701	4,935	22,363	66,999	5,734	72,733	(1,322)	71,411
Income (loss) before income taxes	2,481	1,615	(9,340)	(5,244)	(13,761)	(19,005)	(5)	(19,010)
Income tax expense (benefit)	–	–	83	83	(2,218)	(2,135)	(5)	(2,140)
Net income (loss)	\$ 2,481	\$ 1,615	\$ (9,423)	\$ (5,327)	\$ (11,543)	\$ (16,870)	\$ –	\$ (16,870)
Expenditures for non-current assets:								
Acquisition properties, net	\$ 21,333	\$ –	\$ –	\$ 21,333	\$ –	\$ 21,333	\$ –	\$ 21,333
Capital additions	12,321	4,163	2,606	19,090	427	19,517	(152)	19,365

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

As at and for three-month periods ended March 31, 2014 and 2013

12. Segmented information (continued):

Three-month period ended March 31, 2013	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Revenue:								
Resident Management and other fees	\$ 118,056	\$ 50,626	\$ 58,597	\$ 227,279	\$ –	\$ 227,279	\$ (27,905)	\$ 199,374
Lease revenue from joint ventures	–	–	–	–	2,042	2,042	–	2,042
Mezzanine loan interest	–	–	–	–	–	–	7,475	7,475
	–	–	–	–	62	62	–	62
	118,056	50,626	58,597	227,279	2,104	229,383	(20,430)	208,953
Expenses:								
Direct operating	78,613	44,251	43,709	166,573	–	166,573	(17,982)	148,591
General, administrative and trust	–	–	–	–	7,876	7,876	–	7,876
	78,613	44,251	43,709	166,573	7,876	174,449	(17,982)	156,467
Income (loss) before the undernoted ⁽¹⁾	39,443	6,375	14,888	60,706	(5,772)	54,934	(2,448)	52,486
Finance costs (recovery):								
Contractual interest	13,255	3,325	11,364	27,944	1,108	29,052	(1,253)	27,799
Other	(203)	(411)	359	(255)	309	54	(33)	21
Property lease expense	32	67	557	656	–	656	–	656
Other expense (income):								
Interest	(33)	(923)	–	(956)	(25)	(981)	21	(960)
Other	30	–	(46,902)	(46,872)	12	(46,860)	48,234	1,374
Depreciation and amortization	23,750	2,421	13,435	39,606	578	40,184	(875)	39,309
Share of net income from joint venture	–	–	–	–	–	–	(48,542)	(48,542)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)								
	48	(94)	–	(46)	610	564	–	564
	36,879	4,385	(21,187)	20,077	2,592	22,669	(2,448)	20,221
Income (loss) before income taxes	2,564	1,990	36,075	40,629	(8,364)	32,265	–	32,265
Income tax expense	–	–	63	63	–	63	–	63
Net income (loss)	\$ 2,564	\$ 1,990	\$ 36,012	\$ 40,566	\$ (8,364)	\$ 32,202	\$ –	\$ 32,202
Expenditures for non-current assets:								
Capital additions	\$ 4,176	\$ 1,081	\$ 2,172	\$ 7,429	\$ 1,371	\$ 8,800	\$ (63)	\$ 8,737

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

As at and for three-month periods ended March 31, 2014 and 2013

12. Segmented information (continued):

March 31, 2014	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 1,879,511	\$ 290,184	\$ 706,932	\$ 2,876,627	\$ 5,596	\$ 2,882,223	\$ (27,579)	\$ 2,854,644
Total liabilities	\$ 1,272,555	\$ 234,611	\$ 652,904	\$ 2,160,070	\$ 244,810	\$ 2,404,880	\$ (27,579)	\$ 2,377,301

December 31, 2013	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	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

13. Financial instruments:

Classification, carrying values and fair values of financial instruments:

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

	March 31, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	\$ 1,977,793	\$ 2,019,629	\$ 2,004,236	\$ 2,025,702
Credit Facility	85,617	85,617	27,000	27,000

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

13. Financial instruments (continued):

Fair value represents management's estimates of the market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective, 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 condensed consolidated interim 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 March 31, 2014, the mortgages payable were discounted using rates between 1.97% and 5.21% (December 31, 2013 - 2.03% and 5.49%). 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.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

14. Other expense (income):

	Three-month periods ended March 31,	
	2014	2013
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivable	\$ (1,245)	\$ –
Gain on disposal of assets	(441)	–
Gain recorded on remeasurement of previously held interest on acquisition	(435)	–
Interest income on loans and receivables	(949)	(960)
Other income	(3,070)	(960)
Transaction costs arising on business acquisitions and dispositions	899	1,374
Other expense	899	1,374
Other expense (income)	\$ (2,171)	\$ 414

On March 31, 2014, MacLean Homes Limited completed the sale of a retirement residence to a third party and repaid its \$1,245 mezzanine loan to Chartwell. As a result, in the three-month period ended March 31, 2014, Chartwell recorded a reversal of previously recorded impairment provisions for mezzanine loan of \$1,245.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

15. Finance costs:

	Three-month periods ended	
	March 31,	
	2014	2013
Contractual mortgage interest expense	\$ 25,509	\$ 25,388
Interest expense on convertible debentures	1,897	1,897
Credit facilities and other interest expense	562	514
	27,968	27,799
Interest capitalized to properties under development	(105)	(284)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	380	46
Distributions on Class B Units recorded as interest expense	224	259
Total finance costs	\$ 28,467	\$ 27,820

16. Changes in fair values of financial instruments and unrealized foreign exchange losses:

	Three-month periods ended	
	March 31,	
	2014	2013
Changes in fair value of convertible debentures	\$ 2,632	\$ 1,350
Changes in fair value of interest rate swap	(10)	(45)
Unrealized foreign exchange loss	(52)	(878)
Changes in fair value of LTIP option component	107	(251)
Changes in fair value of Class B Units	696	299
Changes in fair value of Deferred Trust Units	263	89
Change in fair value of lease purchase option	(1,212)	–
Changes in fair values of financial instruments and unrealized foreign exchange losses	\$ 2,424	\$ 564

CHARTWELL RETIREMENT RESIDENCES

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

As at and for three-month periods ended March 31, 2014 and 2013

17. Income taxes:

For the three-month period ended March 31, 2014, Chartwell recorded a current income tax recovery of \$2,140 (2013 - expense of \$63) and a deferred income tax benefit of nil (2013 - nil).

The average effective tax rates for the three months ended March 31, 2014 was impacted by the recovery of SIFT tax relating to the 2007 tax year for Chartwell Master Care LP. Chartwell recorded a receivable for the SIFT tax recovery of \$2,218 for the period ended March 31, 2014, included in trade and other receivables on the interim condensed balance sheet as a result of receiving notice that an objection of the 2007 SIFT tax assessment was accepted.

18. Subsequent events:

On May 1, 2014, Chartwell completed the previously announced sale of a 14 property (945 suites) portfolio in Ontario. The sale price was \$65,950 and was satisfied in part by the purchasers assuming mortgages in the amount of \$19,303. The balance of the purchase price, net of closing costs, was received in cash. Chartwell provided the purchaser with vendor take-back mortgages ("VTBs") secured by charges against certain properties in the portfolio in the amount of \$6,000, bearing interest at 8% per annum and having a three-year term to maturity. The VTBs are cross-collateralized and cross-defaulted and are secured by the corporate guarantees of the purchaser and its related entity.