

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

Three months and six months ended  
June 30, 2014 and 2013

# CHARTWELL RETIREMENT RESIDENCES

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

	Note	June 30, 2014	December 31, 2013
<b>Assets</b>			
Current assets:			
Cash		\$ 19,551	\$ 8,601
Trade and other receivables		24,007	17,881
Capital funding receivable		4,829	4,698
Other assets	4	22,433	26,668
Assets held for sale	10	119,982	–
Total current assets		190,802	57,848
Non-current assets:			
Other assets	4	8,519	7,397
Deferred tax asset	18	2,026	–
Loans receivable	5	6,000	–
Capital funding receivable		64,033	66,481
Investment in joint ventures	6	22,892	28,319
Intangible assets		49,447	49,777
Property, plant and equipment ("PP&E")	3	2,413,130	2,628,140
Total non-current assets		2,566,047	2,780,114
Total assets		\$ 2,756,849	\$ 2,837,962

## Liabilities and Unitholders' Equity

Current liabilities:			
Secured revolving operating credit facilities ("Credit Facilities")	7(b)	\$ 59,940	\$ 27,000
Accounts payable and other liabilities	9	117,167	129,020
Distributions payable		7,933	7,884
Mortgages payable	7(a)	156,183	219,347
Liabilities related to assets held for sale	10	95,160	–
Total current liabilities		436,383	383,251
Non-current liabilities:			
Mortgages payable	7(a)	1,704,231	1,784,889
Convertible debentures	8	148,352	144,005
Class B Units of Chartwell Master Care LP ("Class B Units")	11	17,792	16,583
Total non-current liabilities		1,870,375	1,945,477
Total liabilities		2,306,758	2,328,728
Unitholders' equity	12	450,091	509,234
Subsequent events	19		
Total liabilities and unitholders' equity		\$ 2,756,849	\$ 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)

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013 (Restated - note 1)	2014	2013 (Restated - note 1)
<b>Revenue:</b>					
Resident		\$ 204,535	\$ 202,949	\$ 412,210	\$ 402,322
Management and other fees		1,860	1,818	3,708	3,860
Lease revenue from Joint Ventures	6	8,306	7,916	16,336	15,391
Interest on loans receivable		83	33	143	96
		214,784	212,716	432,397	421,669
<b>Expenses:</b>					
Direct operating		144,092	141,173	299,369	289,764
General, administrative and Trust		8,255	7,793	18,190	15,669
		152,347	148,966	317,559	305,433
Income before the undernoted <sup>(1)</sup>		62,437	63,750	114,838	116,236
Finance costs	16	29,804	27,800	58,271	55,620
Property lease expense		683	681	1,355	1,337
Other income	15	(5,408)	(527)	(7,579)	(113)
Depreciation of PP&E	3	41,131	37,009	82,716	75,884
Amortization of intangible assets		1,043	627	1,504	1,061
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	17	3,811	(7,437)	6,235	(6,873)
Share of net income from joint ventures	6	(65)	(252)	(92)	(48,794)
		70,999	57,901	142,410	78,122
Income (loss) before income taxes		(8,562)	5,849	(27,572)	38,114
Income tax expense (benefit):	18				
Current		470	66	(1,670)	129
Deferred		(2,057)	–	(2,057)	–
		(1,587)	66	(3,727)	129
Net income (loss)		(6,975)	5,783	(23,845)	37,985
<b>Other comprehensive income (loss):</b>					
Items that may be reclassified subsequently to net income (loss):					
Unrealized foreign currency income (loss) on translation of foreign operations		(1,971)	1,283	783	2,719
<b>Total comprehensive income (loss)</b>		<b>\$ (8,946)</b>	<b>\$ 7,066</b>	<b>\$ (23,062)</b>	<b>\$ 40,704</b>

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

See accompanying notes to condensed consolidated interim financial statements.

# CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Six months ended June 30, 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	—	—	—	(23,845)	—	—	—	(23,845)
Other comprehensive income	—	—	—	—	783	—	—	783
Distributions to unitholders	—	—	—	—	—	(46,955)	—	(46,955)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	9,439	—	—	—	—	—	—	9,439
Trust Units issued on vesting of deferred trust units ("DTU")	431	—	—	—	—	—	—	431
Trust Units issued on exchange of Class B Units	178	—	—	—	—	—	—	178
Trust units issued under the Long-Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	605	356	(626)	—	—	—	55	390
Interest on LTIP receivable	—	—	(86)	—	—	—	—	(86)
Distributions applied against LTIP receivable	—	—	522	—	—	—	—	522
<b>Unitholders' equity, June 30, 2014</b>	<b>\$ 1,735,217</b>	<b>\$ 21,650</b>	<b>\$ (17,333)</b>	<b>\$ (537,103)</b>	<b>\$ (1,590)</b>	<b>\$ (756,749)</b>	<b>\$ 5,999</b>	<b>\$ 450,091</b>

During the six months ended June 30, 2014, distributions were declared and paid at \$0.045 per unit per month. In July 2014, distributions were declared at \$0.045 per unit totalling \$7,940.

Six months ended June 30, 2013 (Restated - note 1)	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated gains (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
Net income	—	—	—	37,985	—	—	—	37,985
Other comprehensive income	—	—	—	—	2,719	—	—	2,719
Distributions to unitholders	—	—	—	—	—	(46,414)	—	(46,414)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	9,099	—	—	—	—	—	—	9,099
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	38	(1,643)	663	—	—	—	673	(269)
Interest on LTIP receivable	—	—	(99)	—	—	—	—	(99)
Distributions applied against LTIP receivable	—	—	608	—	—	—	—	608
<b>Unitholders' equity, June 30, 2013</b>	<b>\$ 1,712,050</b>	<b>\$ 23,782</b>	<b>\$ (18,361)</b>	<b>\$ (499,157)</b>	<b>\$ (2,757)</b>	<b>\$ (663,139)</b>	<b>\$ 5,564</b>	<b>\$ 557,982</b>

During the six months ended June 30, 2013, distributions were declared and paid at \$0.045 per unit per month. In July 2013, distributions were declared at \$0.045 per unit totalling \$7,841.

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)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013 (Restated - note 1)	2014	2013 (Restated - note 1)
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ (6,975)	\$ 5,783	\$ (23,845)	\$ 37,985
Items not affecting cash:				
Depreciation and amortization	42,174	37,636	84,220	76,945
Finance costs	29,804	27,800	58,271	55,620
Other income	(5,408)	(527)	(7,579)	(113)
Transaction costs arising from business acquisitions and dispositions	(830)	(507)	(1,729)	(1,887)
Interest on loans receivable	(83)	(33)	(143)	(96)
Non-cash compensation expense	77	465	977	854
Changes in fair values of financial instruments and unrealized foreign exchange losses	3,811	(7,437)	6,235	(6,873)
Current income taxes	470	66	(1,670)	129
Deferred income taxes	(2,057)	-	(2,057)	-
Share of Joint Venture income	(65)	(252)	(92)	(48,794)
Other	1,998	-	788	-
Change in trade and other receivables	(3,196)	(369)	(6,301)	(2,184)
Change in other assets	(2,744)	(478)	(3,022)	79
Change in accounts payable and other liabilities	(1,384)	(3,137)	(6,270)	(9,040)
	55,592	59,010	97,783	102,625
Interest and income received	5,341	1,040	6,290	2,000
Interest paid	(29,050)	(26,509)	(58,600)	(56,333)
Net cash provided by operating activities	31,883	33,541	45,473	48,292
Financing activities:				
Proceeds from mortgage financing	138,062	71,055	155,441	160,197
Mortgage maturity repayments	(127,123)	(46,588)	(175,195)	(98,577)
Changes to Credit Facility	(25,677)	8,500	32,940	(31,000)
Scheduled mortgage principal repayments	(14,430)	(12,987)	(28,952)	(26,522)
Net additions to finance costs	(537)	(100)	(1,713)	(2,053)
Distributions paid	(18,780)	(19,521)	(36,945)	(36,671)
Deposits and repayments received under LTIP	44	6	86	32
Net cash provided by (used in) financing activities	(48,441)	365	(54,338)	(34,594)
Investing activities:				
Acquisition of assets under business combinations	-	(19,000)	(6,133)	(19,000)
Additions to PP&E and intangible assets	(11,432)	(14,666)	(30,797)	(23,403)
Proceeds from disposal of PP&E	40,528	-	41,914	-
Change in restricted cash	2,367	454	5,610	583
Proceeds from capital funding receivable	1,167	1,042	2,317	2,085
Mezzanine loan collection	-	-	1,245	-
Distributions received from Joint Ventures	191	1,768	5,519	42,068
Net cash provided by (used in) investing activities	32,821	(30,402)	19,675	2,333
Increase in cash	16,263	3,504	10,810	16,031
Foreign exchange gains (losses) on U.S. dollar-denominated cash	(897)	1,331	140	2,039
Cash, beginning of period	4,185	13,260	8,601	25
Cash, end of period	\$ 19,551	\$ 18,095	\$ 19,551	\$ 18,095

See accompanying notes to 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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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 August 7, 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 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 determined that for Canadian properties 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 a decrease in direct operating expenses on the condensed consolidated interim statement of comprehensive income (loss) for the three months ended June 30, 2013 of \$2,006 and an increase in direct operating expenses of \$2,937 for the six months ended June 30, 2013. This resulted in a related decrease in unitholders' equity as at June 30, 2013 on the condensed consolidated interim balance sheet and the condensed consolidated interim statement of unitholders' equity of \$2,937.

## 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 the remaining 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 2. Acquisitions (continued):

Since the Robert Speck acquisition was completed in steps, IFRS required Chartwell 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 income in the condensed consolidated interim statements of comprehensive income (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 \$1,485 and net loss of \$799 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 3. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
<b>Cost</b>						
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	–	15,061	3,617	12,103	–	30,781
Additions through business combinations	3,370	27,990	640	–	–	32,000
Disposals	(11,869)	(88,151)	(1,674)	–	–	(101,694)
Derecognition	–	(14,826)	(2,006)	–	–	(16,832)
Transfers <sup>(1)</sup>	1,875	26,111	2,565	(31,686)	–	(1,135)
Transfers to assets held for sale (note 10)	(14,712)	(123,617)	(3,114)	–	–	(141,443)
Exchange differences on translation of United States Operations	278	2,269	66	(36)	35	2,612
Balance, June 30, 2014	\$ 315,393	\$ 2,608,038	\$ 88,523	\$ 11,381	\$ 25,395	\$ 3,048,730
<b>Accumulated depreciation and impairment losses</b>						
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	–	72,361	10,355	–	–	82,716
Disposals	–	(22,164)	(695)	–	–	(22,859)
Derecognition	–	(14,796)	(2,036)	–	–	(16,832)
Transfers to assets held for sale (note 10)	–	(21,676)	(1,676)	–	–	(23,352)
Exchange differences on translation of United States Operations	–	(204)	(170)	–	–	(374)
Balance, June 30, 2014	\$ –	\$ 574,444	\$ 57,631	\$ 2,422	\$ 1,103	\$ 635,600
<b>Carrying amounts</b>						
Balance, December 31, 2013	\$ 336,451	\$ 2,202,278	\$ 36,576	\$ 28,578	\$ 24,257	\$ 2,628,140
Balance, June 30, 2014	315,393	2,033,594	30,892	8,959	24,292	2,413,130

<sup>(1)</sup>For the six months ended June 30, 2014, Chartwell transferred \$1,135 of software development costs from properties under development to intangible assets.

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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

On January 2, 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.

During the six-month period ended June 30, 2014, Chartwell transferred one property from properties under development to operating.

During the six-month period ended June 30, 2014, Chartwell capitalized \$131 of borrowing costs related to development projects under construction at an average capitalization rate of 5.03%. 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%.

On May 1, 2014, Chartwell completed the previously announced sale of a 14 property (945 suites) portfolio in Ontario. The portfolio had a carrying amount of \$65,391 at the time of disposal (note 15).

During the six-month period ended June 30, 2014 Chartwell recorded disposals of other property, plant and equipment with a carrying value of \$2,778.

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 4. Other assets:

	June 30, 2014	December 31, 2013
Prepaid expenses and deposits	\$ 12,996	\$ 11,747
Restricted cash	7,745	13,355
Fair value of lease purchase option	5,705	4,547
Other assets	4,506	4,416
	<u>\$ 30,952</u>	<u>\$ 34,065</u>
Current	\$ 22,433	\$ 26,668
Non-current	8,519	7,397
	<u>\$ 30,952</u>	<u>\$ 34,065</u>

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

## 5. Loans receivable:

Loans receivable bear interest at 8% per annum and mature on May 1, 2017. The loans are secured by charges on six properties sold by Chartwell in 2014. The loans are cross-collateralized and cross-defaulted and are secured by the corporate guarantees of the purchaser of these six properties, and its related parties.

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 6. Joint arrangements:

The following are Chartwell's joint arrangements:

Joint arrangements	Number of properties	Location	Chartwell ownership	Joint arrangement type
Chartwell-HCN Landlord <sup>(1)</sup>	39	Canada	50%	Joint operation
Chartwell-HCN Operator <sup>(1)</sup>	Same as above	Same as above	50%	Joint venture <sup>(2)</sup>
Oakville	1	Canada	50%	Joint venture <sup>(2)</sup>
Constantia	1	Canada	50%	Joint venture <sup>(2)</sup>
Pickering	1	Canada	50%	Joint venture <sup>(2)</sup>
Valley Vista	1	Canada	50%	Joint operation
Riverside	1	Canada	50%	Joint operation
Churchill	1	Canada	50%	Joint operation
Bristol <sup>(3)</sup>	5	United States	50%	Joint venture <sup>(2)</sup>

<sup>(1)</sup>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.

<sup>(2)</sup>These joint ventures have been structured through separate legal vehicles.

<sup>(3)</sup>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:

	June 30, 2014 <sup>(1)</sup>	December 31, 2013 <sup>(2)</sup>	June 30, 2013 <sup>(1)</sup>
Distributions received from joint ventures	\$ 5,519	\$ 47,062	\$ 42,068
Contributions to joint ventures	–	188	–

<sup>(1)</sup>Six-month period ended

<sup>(2)</sup>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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 6. Joint arrangements (continued):

	June 30, 2014	December 31, 2013
Current assets	\$ 5,744	\$ 9,894
Non-current assets	46,213	47,332
<b>Total assets</b>	<b>\$ 51,957</b>	<b>\$ 57,226</b>
Current liabilities	\$ 13,199	\$ 12,811
Non-current liabilities	15,866	16,096
<b>Total liabilities</b>	<b>\$ 29,065</b>	<b>\$ 28,907</b>
Net investment in joint ventures	\$ 22,892	\$ 28,319

Included in current assets is \$1,031 (December 31, 2013 - \$3,086) in cash and cash equivalents.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 25,462	\$ 24,938	\$ 51,063	\$ 52,844
Gain on disposal of assets	-	-	-	48,947
Expenses	(25,397)	(24,686)	(50,971)	(52,997)
Chartwell's share of net income as recognized through investment in Joint Ventures	\$ 65	\$ 252	\$ 92	\$ 48,794

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 6. 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 June 30, 2014, \$2,705 (December 31, 2013 - \$517) of Chartwell's accounts receivable and \$9,341 (December 31, 2013 - \$6,722) of Chartwell's accounts payable relate to entities in which it had investments in joint ventures. For the three and six-months ended June 30, 2014, \$1,411 and \$2,821, respectively (three and six-months ended June 30, 2013, \$1,670 and \$2,887, respectively), of Chartwell's management fees and other income related to its 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% share of the landlords' lease receipts, \$8,306 and \$16,336 for the three and six-months ended June 30, 2014, respectively (three and six-months ended June 30, 2013, \$7,916 and \$15,391, respectively), 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 7. 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 June 30, 2014 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2014	\$ 26,386	\$ 63,828	\$ 90,214	5
2015	52,627	265,576	318,203	17
2016	47,203	252,037	299,240	16
2017	42,832	220,677	263,509	14
2018	40,936	72,145	113,081	6
2019	40,342	10,591	50,933	3
2020	40,908	50,988	91,896	5
2021	39,285	50,150	89,435	5
2022	36,087	62,200	98,287	5
2023	31,202	58,992	90,194	5
2024	21,795	105,521	127,316	7
2025	17,382	3,947	21,329	1
Thereafter	167,243	42,704	209,947	11
	<u>\$ 604,228</u>	<u>\$ 1,259,356</u>	\$ 1,863,584	100
Mark-to-market adjustments on acquisition			14,889	
Financing costs			(18,059)	
			<u>\$ 1,860,414</u>	
Current			\$ 156,183	
Non-current			1,704,231	
			<u>\$ 1,860,414</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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 7. Secured debt (continued):

	June 30, 2014	December 31, 2013
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,725,876	\$ 1,851,417
Interest rates	1.96% - 8.51%	1.96% - 10.00%
Weighted average interest rate	4.95%	5.10%
Mortgages at variable rates:		
Mortgages (principal)	\$ 137,708	\$ 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	4.40%	4.09%
Blended weighted average rate	4.91%	5.02%

## (b) Credit Facilities:

	Note	June 30, 2014	December 31, 2013
Canadian Credit Facility	(i)	\$ 39,000	\$ 27,000
U.S. Credit Facility	(ii)	20,940	–
		\$ 59,940	\$ 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 June 30, 2014, the maximum available borrowing capacity under the Canadian Credit Facility was \$76,290 (December 31, 2013 - \$91,745) based on the security provided. Of this capacity, \$2,644 (December 31, 2013 - \$2,686) has been allocated to support various letters of credit issued by Chartwell. As at June 30, 2014, \$39,000 (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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 7. 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 June 30, 2014, maximum available borrowing capacity under the United States Credit Facility was \$25,208 (USD \$23,625). As at June 30, 2014, \$20,940 (USD \$19,625) was outstanding under the United States Credit Facility.

## 8. Convertible debentures:

Chartwell has elected to designate convertible debentures as fair value through profit and loss ("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 convertible debentures at June 30, 2014 was \$109.89 (December 31, 2013 - \$106.67).

Chartwell has the following series of convertible debentures outstanding:

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	June 30, 2014	December 31, 2013
5.7% convertible debentures:		
Principal	\$ 135,000	\$ 135,000
Fair value	148,352	144,005

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# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 9. Accounts payable and other liabilities:

	Note	June 30, 2014	December 31, 2013
Accounts payable and accrued liabilities		\$ 91,188	\$ 104,518
Resident deposits		2,822	3,220
Deferred revenue		8,955	9,827
DTU	(a)	6,869	6,080
Restricted Trust Units	(b)	1,464	856
LTIP option component	(c)	5,869	4,519
		\$ 117,167	\$ 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 June 30, 2014 was \$10.84 (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	51,294	550
DTU exchange for Trust Units on vesting	(40,942)	(431)
Change in fair value and reinvested distributions	15,302	670
Balance, June 30, 2014	633,640	\$ 6,869

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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

### (b) Restricted Unit Plan:

During the six-month period ended June 30, 2014, 194,141 Restricted Trust Units ("RTUs") were granted, 21,110 RTUs were cancelled and 7,487 RTUs were allocated related to reinvested distributions. At June 30, 2014, 349,496 RTUs remain outstanding (December 31, 2013 - 168,978).

### (c) LTIP (note 12):

LTIP fair value is measured using the Monte Carlo simulation method. On May 15, 2014 the LTIP was amended, such that the period for payment for the exercise of terms of the LTIP awards was extended from 10 to 20 years, for LTIP issued before April 1, 2014. Future LTIP awards will be limited to senior executives and will continue to have 10 year terms. The following table summarizes the assumptions used to determine the fair value of the LTIP option component:

	June 30, 2014	December 31, 2013
Expected volatility	12.17% - 17.17%	16.65% - 21.65%
Risk free rate	2.78% - 3.19%	1.41% - 3.13%
Distribution yield	5.92% - 5.92%	5.76% - 6.48%

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# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 10. 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 sale closed on July 2, 2014 (note 19).

On June 18, 2014, Chartwell entered into a definitive agreement to sell four U.S. properties comprised of 827 suites located in the United States (the "Portfolio"). The sale price for the Portfolio is \$145,219 (U.S. \$136,100). The Portfolio is encumbered by mortgages (principal) with the balance of \$92,147 (U.S. \$86,361) at June 30, 2014. The sale closed on July 30, 2014 (note 19).

The following table summarizes the significant assets held for sale and related liabilities on June 30, 2014:

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Assets:	
Trade and other receivables	\$ 175
Other assets	1,716
PP&E, net	118,091
	<hr/>
	\$ 119,982
<hr/>	
Liabilities:	
Accounts payable and other liabilities	\$ 2,865
Mortgages payable (a)	92,295
	<hr/>
	\$ 95,160

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(a) Includes \$92,023 (U.S. \$86,245) of principal outstanding discharged on closing.

# CHARTWELL RETIREMENT RESIDENCES

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

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## 11. 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 June 30, 2014 was \$10.84 (December 31, 2013 - \$10.00). During the six months ended June 30, 2014, 16,989 (December 31, 2013 - 20,816) Class B Units were exchanged for Trust Units. At June 30, 2014, 1,641,323 Class B Units were outstanding (December 31, 2013 - 1,658,312).

## 12. 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	934,125	9,439
Trust Units issued on vesting of DTU	40,942	431
Trust Units issued in exchange of Class B Units	16,989	178
Trust Units released on settlement of LTIP receivable	62,789	605
Balance, June 30, 2014	172,698,827	\$ 1,735,217

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 12. Trust Units and LTIP (continued):

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 surrendered for cancellation under LTIP	(24,815)	(205)
Trust Units released on settlement of LTIP receivable	(62,789)	(605)
Balance, June 30, 2014	1,919,497	\$ 21,650

## 13. 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 13. Segmented information (continued):

	Three months ended June 30, 2014							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Revenue:								
Resident Management and other fees	\$ 121,620	\$ 53,103	\$ 55,274	\$ 229,997	\$ –	\$ 229,997	\$ (25,462)	\$ 204,535
Lease revenue from joint ventures	–	–	–	–	1,860	1,860	–	1,860
Interest on loans receivable	–	–	–	–	–	–	8,306	8,306
	–	–	–	–	83	83	–	83
	121,620	53,103	55,274	229,997	1,943	231,940	(17,156)	214,784
Expenses:								
Direct operating General, administrative and trust	79,426	45,755	35,163	160,344	–	160,344	(16,252)	144,092
	–	–	–	–	8,255	8,255	–	8,255
	79,426	45,755	35,163	160,344	8,255	168,599	(16,252)	152,347
Income (loss) before the undernoted <sup>(1)</sup>	42,194	7,348	20,111	69,653	(6,312)	63,341	(904)	62,437
Finance costs (recovery):								
Contractual interest	15,717	2,977	9,047	27,741	2,179	29,920	(387)	29,533
Other	(162)	(211)	387	14	263	277	(6)	271
Property lease expense	32	67	584	683	–	683	–	683
Other expense (income):								
Interest	(32)	(904)	(3,381)	(4,317)	(958)	(5,275)	17	(5,258)
Other	(354)	–	136	(218)	64	(154)	4	(150)
Depreciation and amortization	26,296	2,418	12,899	41,613	1,028	42,641	(467)	42,174
Share of net income from Joint Ventures	–	–	–	–	–	–	(65)	(65)
Changes in fair values of financial instruments and unrealized foreign exchange losses	40	–	20	60	3,751	3,811	–	3,811
	41,537	4,347	19,692	65,576	6,327	71,903	(904)	70,999
Income (loss) before income taxes	657	3,001	419	4,077	(12,639)	(8,562)	–	(8,562)
Income tax expense (benefit)	–	–	(1,987)	(1,987)	400	(1,587)	–	(1,587)
Net income (loss)	\$ 657	\$ 3,001	\$ 2,406	\$ 6,064	\$ (13,039)	\$ (6,975)	\$ –	\$ (6,975)
Expenditures for non-current assets:								
Capital additions	\$ 6,334	\$ (376)	\$ 4,605	\$ 10,563	\$ 1,066	\$ 11,629	\$ (197)	\$ 11,432

<sup>(1)</sup>Refers to income before finance costs (recovery), 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 (gains) losses, share of net income from joint ventures.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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(Unaudited)

## 13. Segmented information (continued):

	Three months ended June 30, 2013							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Revenue:								
Resident Management and other fees	\$ 120,379	\$ 51,068	\$ 56,440	\$ 227,887	\$ –	\$ 227,887	\$ (24,938)	\$ 202,949
Lease revenue from joint ventures	–	–	–	–	1,818	1,818	–	1,818
Interest on loans receivable	–	–	–	–	–	–	7,916	7,916
	–	–	–	–	33	33	–	33
	120,379	51,068	56,440	227,887	1,851	229,738	(17,022)	212,716
Expenses:								
Direct operating General, administrative and trust	76,974	43,816	35,803	156,593	–	156,593	(15,420)	141,173
	–	–	–	–	7,793	7,793	–	7,793
	76,974	43,816	35,803	156,593	7,793	164,386	(15,420)	148,966
Income (loss) before the undernoted <sup>(1)</sup>	43,405	7,252	20,637	71,294	(5,942)	65,352	(1,602)	63,750
Finance costs (recovery):								
Contractual interest	13,047	3,282	10,093	26,422	1,723	28,145	(397)	27,748
Other	(105)	(300)	233	(172)	238	66	(14)	52
Property lease expense	32	67	582	681	–	681	–	681
Other expense (income):								
Interest	(66)	(969)	(3)	(1,038)	(14)	(1,052)	18	(1,034)
Other	(29)	–	295	266	244	510	(3)	507
Depreciation and amortization	23,890	2,396	11,543	37,829	761	38,590	(954)	37,636
Share of net income from Joint Ventures	–	–	–	–	–	–	(252)	(252)
Changes in fair values of financial instruments and unrealized foreign exchange gains	(27)	(104)	–	(131)	(7,306)	(7,437)	–	(7,437)
	36,742	4,372	22,743	63,857	(4,354)	59,503	(1,602)	57,901
Income (loss) before income taxes	6,663	2,880	(2,106)	7,437	(1,588)	5,849	–	5,849
Income tax expense	–	–	66	66	–	66	–	66
Net income (loss)	\$ 6,663	\$ 2,880	\$ (2,172)	\$ 7,371	\$ (1,588)	\$ 5,783	\$ –	\$ 5,783
Expenditures for non-current assets:								
Acquisition properties	\$ 19,000	\$ –	\$ –	\$ 19,000	\$ –	\$ 19,000	\$ –	\$ 19,000
Capital additions	7,944	2,807	2,797	13,548	1,409	14,957	(291)	14,666

<sup>(1)</sup>Refers to income before finance costs (recovery), 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 loss (gains), and share of net income from joint ventures.



# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

## 13. Segmented information (continued):

	Six months ended June 30, 2014							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Revenue:								
Resident Management and other fees	\$ 246,860	\$ 105,560	\$ 110,853	\$ 463,273	\$ –	\$ 463,273	\$ (51,063)	\$ 412,210
Lease revenue from joint ventures	–	–	–	–	3,708	3,708	–	3,708
Interest on loans receivable	–	–	–	–	–	–	16,336	16,336
	–	–	–	–	143	143	–	143
	246,860	105,560	110,853	463,273	3,851	467,124	(34,727)	432,397
Expenses:								
Direct operating General, administrative and trust	162,484	91,662	77,719	331,865	–	331,865	(32,496)	299,369
	–	–	–	–	18,190	18,190	–	18,190
	162,484	91,662	77,719	331,865	18,190	350,055	(32,496)	317,559
Income (loss) before the undernoted <sup>(1)</sup>	84,376	13,898	33,134	131,408	(14,339)	117,069	(2,231)	114,838
Finance costs (recovery):								
Contractual interest	29,438	6,207	18,280	53,925	4,351	58,276	(775)	57,501
Other	(156)	(459)	873	258	523	781	(11)	770
Property lease expense	63	134	1,158	1,355	–	1,355	–	1,355
Other expense (income):								
Interest	(100)	(1,826)	(3,382)	(5,308)	(982)	(6,290)	83	(6,207)
Other	(902)	(5)	380	(527)	(776)	(1,303)	(69)	(1,372)
Depreciation and amortization	52,865	5,231	25,938	84,034	1,548	85,582	(1,362)	84,220
Share of net income from Joint Ventures	–	–	–	–	–	–	(92)	(92)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	30	–	(1,192)	(1,162)	7,397	6,235	–	6,235
	81,238	9,282	42,055	132,575	12,061	144,636	(2,226)	142,410
Income (loss) before income taxes	3,138	4,616	(8,921)	(1,167)	(26,400)	(27,567)	(5)	(27,572)
Income tax benefit	–	–	(1,904)	(1,904)	(1,818)	(3,722)	(5)	(3,727)
<b>Net income (loss)</b>	<b>\$ 3,138</b>	<b>\$ 4,616</b>	<b>\$ (7,017)</b>	<b>\$ 737</b>	<b>\$ (24,582)</b>	<b>\$ (23,845)</b>	<b>\$ –</b>	<b>\$ (23,845)</b>
Expenditures for non-current assets:								
Acquisition properties	\$ 32,000	\$ –	\$ –	\$ 32,000	\$ –	\$ 32,000	\$ –	\$ 32,000
Capital additions	18,655	3,787	7,211	29,653	1,493	31,146	(349)	30,797

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

# CHARTWELL RETIREMENT RESIDENCES

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

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## 13. Segmented information (continued):

Six months ended June 30, 2013								
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
<b>Revenue:</b>								
Resident Management and other fees	\$ 238,436	\$ 101,694	\$ 115,036	\$ 455,166	\$ –	\$ 455,166	\$ (52,844)	\$ 402,322
Lease revenue from joint ventures	–	–	–	–	3,860	3,860	–	3,860
Interest on loans receivable	–	–	–	–	–	–	15,391	15,391
	–	–	–	–	96	96	–	96
	238,436	101,694	115,036	455,166	3,956	459,122	(37,453)	421,669
<b>Expenses:</b>								
Direct operating General, administrative and trust	155,587	88,067	79,512	323,166	–	323,166	(33,402)	289,764
	–	–	–	–	15,669	15,669	–	15,669
	155,587	88,067	79,512	323,166	15,669	338,835	(33,402)	305,433
Income (loss) before the undernoted <sup>(1)</sup>	82,849	13,627	35,524	132,000	(11,713)	120,287	(4,051)	116,236
<b>Finance costs (recovery):</b>								
Contractual interest	26,303	6,607	21,456	54,366	2,832	57,198	(1,651)	55,547
Other	(308)	(711)	592	(427)	547	120	(47)	73
Property lease expense	63	134	1,140	1,337	–	1,337	–	1,337
<b>Other expense (income):</b>								
Interest	(99)	(1,894)	(2)	(1,995)	(39)	(2,034)	34	(2,000)
Other	1	–	(46,607)	(46,606)	257	(46,349)	48,236	1,887
Depreciation and amortization	47,639	4,817	24,978	77,434	1,340	78,774	(1,829)	76,945
Share of net income from Joint Ventures	–	–	–	–	–	–	(48,794)	(48,794)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	21	(197)	–	(176)	(6,697)	(6,873)	–	(6,873)
	73,620	8,756	1,557	83,933	(1,760)	82,173	(4,051)	78,122
Income (loss) before income taxes	9,229	4,871	33,967	48,067	(9,953)	38,114	–	38,114
Income tax expense	–	–	129	129	–	129	–	129
<b>Net income (loss)</b>	<b>\$ 9,229</b>	<b>\$ 4,871</b>	<b>\$ 33,838</b>	<b>\$ 47,938</b>	<b>\$ (9,953)</b>	<b>\$ 37,985</b>	<b>\$ –</b>	<b>\$ 37,985</b>
<b>Expenditures for non-current assets:</b>								
Acquisition properties	\$ 19,000	\$ –	\$ –	\$ 19,000	\$ –	\$ 19,000	\$ –	\$ 19,000
Capital additions	12,120	3,888	4,969	20,977	2,780	23,757	(354)	23,403

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

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 13. Segmented information (continued):

June 30, 2014	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 1,795,716	\$ 286,735	\$ 671,593	\$ 2,754,044	\$ 28,190	\$ 2,782,234	\$ (25,385)	\$ 2,756,849
Total liabilities	\$ 1,249,585	\$ 232,196	\$ 616,570	\$ 2,098,351	\$ 233,792	\$ 2,332,143	\$ (25,385)	\$ 2,306,758

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

## 14. 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:

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	\$ 1,860,414	\$ 1,926,126	\$ 2,004,236	\$ 2,025,702
Credit Facility	59,940	59,940	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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 14. 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, trade and other receivables, loans receivable, accounts payable and other liabilities, and distributions payable as the carrying amounts 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 June 30, 2014, the mortgages payable were discounted using rates between 2.00% and 5.03% (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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 15. Other income:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest and other income	\$ (5,258)	\$ (1,034)	\$ (6,207)	\$ (2,000)
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivable	–	–	(1,245)	–
Gain on sale of assets	(980)	–	(1,421)	–
Gain recorded on remeasurement of previously held interest on acquisition	–	–	(435)	–
Transaction costs arising on business acquisitions and dispositions	830	507	1,729	1,887
<b>Other income</b>	<b>\$ (5,408)</b>	<b>\$ (527)</b>	<b>\$ (7,579)</b>	<b>\$ (113)</b>

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.

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 Purchaser assuming mortgages in the amount of \$19,303 and by Chartwell providing the purchase with vendor take back mortgages totalling \$6,000, the balance of the purchase price, net of closing costs, was received in cash. Chartwell recorded a gain on sale of assets of \$351.

During the three months ended June 30, 2014, Chartwell received \$3,379 (U.S. \$3,103) in settlement of litigation in the United States, which is recorded in other income.

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

## 16. Finance costs:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Contractual interest expense on mortgages	\$ 24,627	\$ 25,437	\$ 50,136	\$ 50,825
Interest expense on convertible debentures	1,919	1,919	3,816	3,816
Credit facility and other interest expense (a)	2,987	392	3,549	906
	29,533	27,748	57,501	55,547
Interest capitalized to properties under development	(26)	(197)	(131)	(481)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	75	60	455	106
Distributions on Class B Units recorded as interest expense	222	189	446	448
<b>Total finance costs</b>	<b>\$ 29,804</b>	<b>\$ 27,800</b>	<b>\$ 58,271</b>	<b>\$ 55,620</b>

(a) For the three and six months ended June 30, 2014, Chartwell early refinanced certain 2014 and 2015 maturing mortgages, incurring early mortgage defeasance costs of \$2,398 included in other interest expense.

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Changes in fair value of convertible debentures	\$ 1,715	\$ (3,375)	\$ 4,347	\$ (2,025)
Changes in fair value of interest rate swaps	40	(131)	30	(176)
Unrealized foreign exchange losses (gains)	120	(1,050)	68	(1,928)
Changes in fair value of LTIP option component	817	(274)	924	(525)
Changes in fair value of Class B Units	691	(1,990)	1,387	(1,691)
Changes in fair value of Deferred Trust Units	407	(617)	670	(528)
Change in fair value of lease purchase option	21	–	(1,191)	–
<b>Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)</b>	<b>\$ 3,811</b>	<b>\$ (7,437)</b>	<b>\$ 6,235</b>	<b>\$ (6,873)</b>

# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## 18. Income taxes:

The average effective tax rates for the six months ended June 30, 2014 was impacted by the recovery of SIFT tax relating to the 2007 tax year for Chartwell Master Care LP and by recognition of the tax benefit of current year losses in CSH Master Care USA Inc.

Chartwell recorded a receivable for the SIFT tax recovery of \$2,218 for the six months ended June 30, 2014, included in trade and other receivables on the condensed consolidated interim balance sheet, as a result of the Canada Revenue Agency accepting the application for a refund of the SIFT tax paid in 2007. Included in current taxes is a provision of \$400 related to the taxable capital gains realized on the sale of the 14 property portfolio in Ontario (note 15). Chartwell also recorded a deferred tax recovery of \$2,057 for the benefit of losses incurred in Q1 and Q2 that would be available to reduce the gain on the sale of the U.S. portfolio expected to close in Q3 2014.

## 19. Subsequent events:

On July 2, 2014, Chartwell and its joint venture partner completed the previously announced sale of a property located in Ontario for \$24,500. Chartwell owns a 50% interest in this property. The balance of the purchase price, net of closing costs, was received in cash.

On July 3, 2014, Chartwell acquired a 100% interest in a 151-unit independent supported living residence located in Gatineau, Québec. The purchase price before closing costs was \$21,800.

On July 18, 2014, Chartwell acquired an 85% interest in two retirement residences, (a 169-suite independent supported living retirement residence ("L'Unique") and a 98-suite assisted living retirement residence) and a medical office building for \$44,300, before closing costs, from entities affiliated with Batimo Inc. The purchase price was satisfied by the assumption of mortgages totalling \$27,900, with the remainder paid in cash.

Chartwell also agreed to advance a mezzanine loan to Batimo Inc. for the development of a 90-suite addition to L'Unique. A \$1,400 mezzanine loan will be for a five-year term, bear interest at the rate equal to the higher of 10% and the yield on a 10-year Government of Canada bond plus 7%, to be fixed at the time of the advance.



# 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 months and six months ended June 30, 2014 and 2013  
(Unaudited)

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## **19. Subsequent events (continued):**

On July 30, 2014, Chartwell completed the previously announced sale of four U.S. properties comprised of 827 suites located in the United States (the "Portfolio"). The sale price for the Portfolio is U.S. \$136,100. The balance of the purchase price, net of closing costs, was received in cash. Mortgages of U.S. \$86,245, related to the properties, were discharged at closing.