

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

As at and for the three months and nine months ended  
September 30, 2014 and 2013  
(Unaudited)

# CHARTWELL RETIREMENT RESIDENCES

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

	Note	September 30, 2014	December 31, 2013
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 12,165	\$ 8,601
Trade and other receivables		20,406	17,881
Capital funding receivable		4,895	4,698
Other assets	4	23,646	26,668
<b>Total current assets</b>		<b>61,112</b>	<b>57,848</b>
Non-current assets:			
Other assets	4	8,766	7,397
Loans receivable	5	6,000	–
Capital funding receivable		62,784	66,481
Investment in joint ventures	6	23,323	28,319
Intangible assets		49,111	49,777
Property, plant and equipment ("PP&E")	3	2,484,896	2,628,140
<b>Total non-current assets</b>		<b>2,634,880</b>	<b>2,780,114</b>
<b>Total assets</b>		<b>\$ 2,695,992</b>	<b>\$ 2,837,962</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Secured revolving operating credit facilities ("Credit Facilities")	7(b)	\$ 49,000	\$ 27,000
Accounts payable and other liabilities	9	111,387	129,020
Distributions payable		7,942	7,884
Mortgages payable	7(a)	331,081	219,347
<b>Total current liabilities</b>		<b>499,410</b>	<b>383,251</b>
Non-current liabilities:			
Mortgages payable	7(a)	1,563,200	1,784,889
Deferred tax liability		1,233	–
Convertible debentures	8	147,825	144,005
Class B Units of Chartwell Master Care LP ("Class B Units")	10	17,989	16,583
<b>Total non-current liabilities</b>		<b>1,730,247</b>	<b>1,945,477</b>
<b>Total liabilities</b>		<b>2,229,657</b>	<b>2,328,728</b>
Unitholders' equity	11	466,335	509,234
Subsequent events	18		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,695,992</b>	<b>\$ 2,837,962</b>

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 September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
			(Restated - note 1)		(Restated - note 1)
<b>Revenue:</b>					
Resident		\$ 203,777	\$ 208,444	\$ 615,987	\$ 610,766
Management and other fees		1,927	2,164	5,635	6,024
Lease revenue from joint ventures	6	8,150	7,960	24,486	23,351
Interest on loans receivable		126	32	269	128
		<u>213,980</u>	<u>218,600</u>	<u>646,377</u>	<u>640,269</u>
<b>Expenses:</b>					
Direct operating		143,667	147,483	443,036	437,247
General, administrative and Trust		6,442	6,800	24,632	22,469
		<u>150,109</u>	<u>154,283</u>	<u>467,668</u>	<u>459,716</u>
Income before the undernoted <sup>(1)</sup>		63,871	64,317	178,709	180,553
Finance costs	15	26,768	28,176	85,039	83,796
Property lease expense		684	682	2,039	2,019
Other income	14	(40,329)	(286)	(47,908)	(399)
Depreciation of PP&E	3	39,930	40,097	122,646	115,981
Amortization of intangible assets		493	514	1,997	1,575
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	16	679	(3,074)	6,914	(9,947)
Share of net income from joint ventures	6	(789)	(333)	(881)	(49,127)
		<u>27,436</u>	<u>65,776</u>	<u>169,846</u>	<u>143,898</u>
Income (loss) before income taxes		36,435	(1,459)	8,863	36,655
Income tax expense (benefit):	17				
Current		1,285	65	(385)	194
Deferred		3,304	–	1,247	–
		<u>4,589</u>	<u>65</u>	<u>862</u>	<u>194</u>
Net income (loss)		31,846	(1,524)	8,001	36,461
<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					
		3,494	(1,148)	4,277	1,570
<b>Total comprehensive income (loss)</b>		<b>\$ 35,340</b>	<b>\$ (2,672)</b>	<b>\$ 12,278</b>	<b>\$ 38,031</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), 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, except per unit amounts)  
(Unaudited)

Nine months ended September 30, 2014	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated income (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
Net income	–	–	–	8,001	–	–	–	8,001
Other comprehensive income	–	–	–	–	4,277	–	–	4,277
Distributions to unitholders	–	–	–	–	–	(70,505)	–	(70,505)
Issuance of Trust Units under the Distribution Reinvestment Program ("DRIP")	13,419	–	–	–	–	–	–	13,419
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	1,043	(1,574)	932	–	–	–	255	656
Interest on LTIP receivable	–	–	(127)	–	–	–	–	(127)
Distributions applied against LTIP receivable	–	–	771	–	–	–	–	771
<b>Unitholders' equity, September 30, 2014</b>	<b>\$ 1,739,635</b>	<b>\$ 19,720</b>	<b>\$ (15,567)</b>	<b>\$ (505,257)</b>	<b>\$ 1,904</b>	<b>\$ (780,299)</b>	<b>\$ 6,199</b>	<b>\$ 466,335</b>

During the nine months ended September 30, 2014, distributions were declared and paid at \$0.045 per unit per month. In October 2014, distributions were declared at \$0.045 per unit totalling \$7,949.

# CHARTWELL RETIREMENT RESIDENCES

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

Nine months ended September 30, 2013 (Restated - note 1)	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated income (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	–	–	–	36,461	–	–	–	36,461
Other comprehensive income	–	–	–	–	1,570	–	–	1,570
Distributions to unitholders	–	–	–	–	–	(69,706)	–	(69,706)
Issuance of Trust Units under the Distribution Reinvestment Program	14,776	–	–	–	–	–	–	14,776
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	68	(1,436)	449	–	–	–	707	(212)
Interest on LTIP receivable	–	–	(145)	–	–	–	–	(145)
Distributions applied against LTIP receivable	–	–	897	–	–	–	–	897
<b>Unitholders' equity, September 30, 2013</b>	<b>\$ 1,717,757</b>	<b>\$ 23,989</b>	<b>\$ (18,332)</b>	<b>\$ (500,681)</b>	<b>\$ (3,906)</b>	<b>\$ (686,431)</b>	<b>\$ 5,598</b>	<b>\$ 537,994</b>

During the nine months ended September 30, 2013, distributions were declared and paid at \$0.045 per unit per month. In October 2013, distributions were declared at \$0.045 per unit totalling \$7,874.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
		(Restated - note 1)		(Restated - note 1)
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 31,846	\$ (1,524)	\$ 8,001	\$ 36,461
Items not affecting cash:				
Depreciation and amortization	40,423	40,611	124,643	117,556
Finance costs	26,768	28,176	85,039	83,796
Other income	(40,329)	(286)	(47,908)	(399)
Transaction costs arising from business acquisitions and dispositions	(1,937)	(846)	(3,666)	(2,733)
Interest on loans receivable	(126)	(32)	(269)	(128)
Non-cash compensation expense	307	690	1,284	1,857
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	679	(3,074)	6,914	(9,947)
Current income taxes	1,285	65	(385)	194
Deferred income taxes	3,304	–	1,247	–
Share of net income from joint ventures	(789)	(333)	(881)	(49,127)
Other	(2,387)	(218)	(1,599)	(3,619)
Change in trade and other receivables	3,776	2,547	(2,525)	222
Change in other assets	5,194	(5,736)	2,172	(5,657)
Change in accounts payable and other liabilities	(7,787)	3,326	(14,057)	(2,113)
	60,227	63,366	158,010	166,363
Interest and income received	879	1,021	7,169	3,021
Interest paid	(28,335)	(30,042)	(86,935)	(86,001)
Net cash provided by operating activities	32,771	34,345	78,244	83,383
Financing activities:				
Proceeds from mortgage financing	7,762	44,344	163,203	204,541
Mortgage maturity repayments	(11,594)	(24,160)	(186,789)	(122,737)
Changes to credit facility	(10,940)	1,000	22,000	(30,000)
Scheduled mortgage principal repayments	(13,977)	(13,884)	(42,929)	(40,406)
Net additions to finance costs	(520)	(819)	(2,233)	(2,872)
Distributions paid	(19,312)	(17,297)	(56,257)	(53,968)
Deposits and repayments received under LTIP	41	167	127	199
Net cash used in financing activities	(48,540)	(10,649)	(102,878)	(45,243)
Investing activities:				
Acquisition of assets under business combinations	(38,182)	(21,309)	(44,315)	(40,309)
Additions to PP&E and intangible assets	(20,261)	(20,047)	(51,058)	(43,450)
Proceeds from disposal of PP&E	68,769	756	110,683	756
Change in restricted cash	(4,048)	115	1,562	698
Proceeds from capital funding receivable	1,182	1,106	3,499	3,191
Mezzanine loan collection	–	–	1,245	–
Distributions received from Joint Ventures	358	281	5,877	42,349
Net cash provided by (used in) investing activities	7,818	(39,098)	27,493	(36,765)
Increase (decrease) in cash	(7,951)	(15,402)	2,859	1,375
Foreign exchange gain (loss) on U.S. dollar-denominated cash	565	(1,096)	705	197
Cash, beginning of period	19,551	18,095	8,601	25
Cash, end of period	\$ 12,165	\$ 1,597	\$ 12,165	\$ 1,597

See accompanying notes to condensed consolidated interim financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 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'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 November 6, 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 the three months and nine months ended September 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 statements of comprehensive income (loss) for the three months ended September 30, 2013 of \$1,257 and an increase in direct operating expenses of \$1,680 for the nine months ended September 30, 2013. This resulted in a related decrease in unitholders' equity as at September 30, 2013 on the condensed consolidated interim balance sheets and the condensed consolidated interim statements of unitholders' equity of \$1,680.

## 2. Acquisitions:

The following acquisitions have occurred for the nine month period ended September 30, 2014 and are consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets.



# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## 2. Acquisitions (continued):

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. 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. Robert Speck has contributed revenue of \$2,275 and net loss of \$1,366 since the acquisition date. Chartwell incurred acquisition-related costs of \$355, which have been expensed in other income in the consolidated statements of comprehensive income (loss).

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 \$21,750, settled in cash, net of working capital adjustments. The property has contributed revenue of \$847 and net loss of \$275 since the acquisition date. Chartwell incurred acquisition-related costs of \$424, which have been expensed in other income in the consolidated statements of comprehensive income (loss). The transaction was accounted for as a business combination under IFRS 3.

On July 18, 2014, Chartwell acquired an 85% interest in two retirement residences (a 169-suite independent supported living retirement residence and a 98-suite assisted living retirement residence) and a medical office building, located in Ste. Eustache, Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price was \$44,285, before closing costs, which was partially satisfied by the assumption of mortgages totalling \$27,861, with the remainder paid in cash. The properties have contributed revenue of \$1,643 and net loss of \$120 since the acquisition date. Chartwell incurred acquisition-related costs of \$1,031, which have been expensed in other income in the consolidated statements of comprehensive income (loss). The transaction was accounted for as a business combination under IFRS 3.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 2. Acquisitions (continued):

Date of acquisition	January 2, 2014	July 3, 2014	July 18, 2014	
Segment	Canadian Retirement Operations			
Location	Province of Ontario (113 suites)	Province of Québec (151 suites)	Province of Québec (267 suites)	Total
PP&E	\$ 21,333	\$ 21,750	\$ 43,378	\$ 86,461
Other assets	–	–	907	907
Mortgages assumed	(15,200)	–	(27,853)	(43,053)
<b>Net assets acquired</b>	<b>\$ 6,133</b>	<b>\$ 21,750</b>	<b>\$ 16,432</b>	<b>\$ 44,315</b>
Cash consideration	\$ 6,133	\$ 21,750	\$ 16,432	\$ 44,315
Mortgages assumed	15,200	–	27,853	43,053
<b>Total consideration transferred</b>	<b>\$ 21,333</b>	<b>\$ 21,750</b>	<b>\$ 44,285</b>	<b>\$ 87,368</b>

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 the three months and nine months ended September 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	–	26,134	7,401	16,249	1,207	50,991
Additions through business combinations	11,066	84,186	1,876	–	–	97,128
Disposals	(26,901)	(215,509)	(4,914)	–	–	(247,324)
Derecognition	–	(21,478)	(2,734)	–	–	(24,212)
Transfers	1,875	26,765	2,618	(32,354)	–	(1,096)
Exchange differences on translation of United States operations	4,246	34,880	1,507	77	376	41,086
Balance, September 30, 2014	\$ 326,737	\$ 2,698,179	\$ 94,183	\$ 14,972	\$ 26,943	\$ 3,161,014
<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	–	107,395	15,251	–	–	122,646
Disposals	–	(45,114)	(2,483)	–	–	(47,597)
Derecognition	–	(21,478)	(2,734)	–	–	(24,212)
Exchange differences on translation of United States operations	–	8,147	833	–	–	8,980
Balance, September 30, 2014	\$ –	\$ 609,873	\$ 62,720	\$ 2,422	\$ 1,103	\$ 676,118
<b>Carrying amounts</b>						
Balance, December 31, 2013	\$ 336,451	\$ 2,202,278	\$ 36,576	\$ 28,578	\$ 24,257	\$ 2,628,140
Balance, September 30, 2014	326,737	2,088,306	31,463	12,550	25,840	2,484,896

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 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 nine months ended September 30, 2014, Chartwell transferred one property from properties under development to operating.

During the nine months ended September 30, 2014, Chartwell capitalized \$288 of borrowing costs related to development projects under construction at an average capitalization rate of 5.00%. 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%.

During the period, Chartwell completed sales of various properties located in Canada and the U.S. (note 14).

During the nine months ended September 30, 2014, Chartwell recorded disposals of other PP&E with a carrying value of \$3,609.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 4. Other assets:

	September 30, 2014	December 31, 2013
Prepaid expenses and deposits	\$ 11,166	\$ 11,747
Restricted cash	10,726	13,355
Fair value of lease purchase options	5,971	4,547
Other assets	4,549	4,416
	<u>\$ 32,412</u>	<u>\$ 34,065</u>
Current	\$ 23,646	\$ 26,668
Non-current	8,766	7,397
	<u>\$ 32,412</u>	<u>\$ 34,065</u>

Restricted cash relates primarily to capital expenditure reserves required in the United States for certain mortgages and net operating income guarantees on three properties in Québec. 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 totalling \$6,000 as at September 30, 2014, bear interest at 8.00% 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, contain cross-default provisions and are secured by the corporate guarantees of the purchaser of these six properties and its related parties.

Chartwell agreed to provide Batimo with various mezzanine and bridge loans for the development of retirement residences in Quebec totalling \$9,758. On October 31, 2014 Chartwell advanced \$3,901 of these loans (note 18).

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 6. Joint arrangements:

The following are Chartwell's joint arrangements:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-HCN Landlord <sup>(1)</sup>	39	Canada	50%	Joint operation
Chartwell-HCN Operator <sup>(1)</sup>	39	Canada	50%	Joint venture <sup>(2)</sup>
Batimo	3	Canada	85%	Joint operation
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 certain information about Chartwell's investment in joint ventures:

	September 30, 2014 <sup>(1)</sup>	December 31, 2013 <sup>(2)</sup>	September 30, 2013 <sup>(1)</sup>
Distributions received from joint ventures	\$ 5,877	\$ 47,062	\$ 42,349
Contributions to joint ventures	–	188	–

<sup>(1)</sup>Nine-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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 6. Joint arrangements (continued):

	September 30, 2014	December 31, 2013
Current assets	\$ 6,580	\$ 9,894
Non-current assets	45,612	47,332
<b>Total assets</b>	<b>\$ 52,192</b>	<b>\$ 57,226</b>
Current liabilities	\$ 631	\$ 12,811
Non-current liabilities	28,238	16,096
<b>Total liabilities</b>	<b>\$ 28,869</b>	<b>\$ 28,907</b>
Net investment in joint ventures	\$ 23,323	\$ 28,319

Included in current assets is \$2,175 of cash held by joint ventures (December 31, 2013 - \$3,086).

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 25,794	\$ 25,170	\$ 76,857	\$ 78,014
Gain on disposal of assets	-	-	-	48,947
Expenses	25,005	24,837	75,976	77,834
<b>Chartwell's share of net income from joint ventures</b>	<b>\$ 789</b>	<b>\$ 333</b>	<b>\$ 881</b>	<b>\$ 49,127</b>

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 September 30, 2014, \$2,858 (December 31, 2013 - \$517) of Chartwell's accounts receivable and \$8,715 (December 31, 2013 - \$6,722) of Chartwell's accounts payable relate to entities in which it had investments in joint ventures. For the three months and nine months ended September 30, 2014, \$1,182 and \$4,003, respectively (three months and nine months ended September 30, 2013, \$989 and \$3,876, respectively), of Chartwell's management fees related to its investment in 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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## 6. Joint arrangements (continued):

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, \$8,150 and \$24,486 for the three months and nine months ended September 30, 2014, respectively (three months and nine months ended September 30, 2013, \$7,960 and \$23,351, 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 the three months and nine months ended September 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 September 30, 2014 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2014	\$ 13,640	\$ 45,824	\$ 59,464	3
2015	54,011	277,506	331,517	17
2016	48,592	267,668	316,260	17
2017	43,732	233,102	276,834	15
2018	41,641	72,145	113,786	6
2019	41,058	10,591	51,649	3
2020	41,470	53,562	95,032	5
2021	39,800	50,150	89,950	5
2022	36,610	62,200	98,810	5
2023	31,736	58,992	90,728	5
2024	22,182	117,214	139,396	7
2025	17,616	3,947	21,563	1
Thereafter	170,022	42,705	212,727	11
	<u>\$ 602,110</u>	<u>\$ 1,295,606</u>	\$ 1,897,716	<u>100</u>
Mark-to-market adjustments on acquisition			14,390	
Financing costs			(17,825)	
			<u>\$ 1,894,281</u>	
Current			\$ 331,081	
Non-current			1,563,200	
			<u>\$ 1,894,281</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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 7. Secured debt (continued):

	September 30, 2014	December 31, 2013
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,757,080	\$ 1,851,417
Interest rates	1.96 - 8.51%	1.96% - 10.00%
Weighted average interest rate	4.93%	5.10%
Mortgages at variable rates:		
Mortgages (principal)	\$ 140,636	\$ 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	4.44%	4.09%
Blended weighted average rate	4.89%	5.02%

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## 7. Secured debt (continued):

### (b) Credit facilities:

- (i) On June 22, 2013, Chartwell renewed its Canadian Credit Facility for a two-year term expiring on June 22, 2015. In the three month period ended September 30, 2014, the borrowing capacity was increased to \$105,000. 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 September 30, 2014, the maximum available borrowing capacity under the Canadian Credit Facility was \$105,000 (December 31, 2013 - \$91,745) based on the security provided. Of this capacity, \$4,850 (December 31, 2013 - \$2,686) has been allocated to support various letters of credit issued by Chartwell. As at September 30, 2014, \$49,000 (December 31, 2013 - \$27,000) was outstanding under the Canadian Credit Facility.
  
- (ii) On January 27, 2014, Chartwell entered into a U.S. Credit Facility expiring on December 31, 2015. The U.S. 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 U.S. Additional terms include covenants requiring limitations on debt service coverage ratios, liquidity, fixed charge coverage ratio and minimum capital spent on specific properties. At September 30, 2014, maximum available borrowing capacity under the U.S. Credit Facility was \$26,460 (U.S. \$23,625). As at September 30, 2014, there was no outstanding balance under the U.S. 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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 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 September 30, 2014 was \$109.50 (December 31, 2013 - \$106.67).

Chartwell has the following series of convertible debentures outstanding:

	September 30, 2014	December 31, 2013
5.7% convertible debentures:		
Principal	\$ 135,000	\$ 135,000
Fair value	147,825	144,005

## 9. Accounts payable and other liabilities:

	Note	September 30, 2014	December 31, 2013
Accounts payable and accrued liabilities		\$ 83,767	\$ 104,518
Resident deposits		2,837	3,220
Deferred revenue		9,572	9,827
Deferred Trust Units	(a)	7,299	6,080
Restricted Trust Units ("RTUs")	(b)	1,817	856
Long-term Incentive Plan option component	(c)	6,095	4,519
		\$ 111,387	\$ 129,020

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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

### (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 September 30, 2014 was \$10.96 (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	75,929	817
DTU exchange for Trust Units on vesting	(40,942)	(431)
Change in fair value	22,964	833
Balance, September 30, 2014	665,937	\$ 7,299

### (b) Restricted unit plan:

During the nine months ended September 30, 2014, 194,141 RTUs were granted, 24,807 RTUs were cancelled and 11,797 RTUs were allocated related to reinvested distributions. At September 30, 2014, 350,109 RTUs remain outstanding (December 31, 2013 - 168,978).

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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

(c) LTIP (note 11):

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:

	September 30, 2014	December 31, 2013
Expected volatility	14.13% - 19.13%	16.65% - 21.65%
Risk-free rate	2.67% - 3.07%	1.41% - 3.13%
Distribution yield	5.83%	5.76% - 6.48%

## 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 September 30, 2014 was \$10.96 (December 31, 2013 - \$10.00). During the nine months ended September 30, 2014, 16,989 (December 31, 2013 - 20,816) Class B Units were exchanged for Trust Units. At September 30, 2014, 1,641,323 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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 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 Distribution Reinvestment Plan ("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	1,309,199	13,419
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	101,118	1,043
Balance, September 30, 2014	173,112,230	\$ 1,739,635

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	(142,990)	(1,697)
Trust Units released on settlement of LTIP receivable	(101,118)	(1,043)
Balance, September 30, 2014	1,762,993	\$ 19,720

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## 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 shows the adjustments to account for these joint ventures using the equity method 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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 12. Segmented information (continued):

Three months ended September 30, 2014								
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
<b>Revenue:</b>								
Resident	\$ 124,209	\$ 54,163	\$ 51,199	\$ 229,571	\$ –	\$ 229,571	\$ (25,794)	\$ 203,777
Management and other fees	–	–	–	–	1,927	1,927	–	1,927
Lease revenue from joint ventures	–	–	–	–	–	–	8,150	8,150
Loan interest	–	–	–	–	126	126	–	126
	124,209	54,163	51,199	229,571	2,053	231,624	(17,644)	213,980
<b>Expenses (income):</b>								
Direct operating	78,407	46,939	33,936	159,282	–	159,282	(15,615)	143,667
General, administrative and trust	–	–	–	–	6,442	6,442	–	6,442
	78,407	46,939	33,936	159,282	6,442	165,724	(15,615)	150,109
Income (loss) before the undernoted <sup>(1)</sup>	45,802	7,224	17,263	70,289	(4,389)	65,900	(2,029)	63,871
<b>Finance costs (recovery):</b>								
Contractual interest	13,398	3,012	7,535	23,945	2,656	26,601	(388)	26,213
Other	159	(258)	393	294	265	559	(4)	555
Property lease expense	31	68	585	684	–	684	–	684
<b>Other expense (income):</b>								
Interest	(26)	(888)	(1)	(915)	(58)	(973)	11	(962)
Other	(5,065)	–	(34,941)	(40,006)	727	(39,279)	(88)	(39,367)
Depreciation and amortization	27,297	2,308	10,948	40,553	641	41,194	(771)	40,423
Share of net income from joint ventures	–	–	–	–	–	–	(789)	(789)
<b>Changes in fair values of financial instruments and unrealized foreign exchange losses</b>								
	7	–	18	25	654	679	–	679
	35,801	4,242	(15,463)	24,580	4,885	29,465	(2,029)	27,436
Income (loss) before income taxes	10,001	2,982	32,726	45,709	(9,274)	36,435	–	36,435
Income tax expense (benefit)	(4)	–	4,393	4,389	200	4,589	–	4,589
<b>Net income (loss)</b>	<b>\$ 10,005</b>	<b>\$ 2,982</b>	<b>\$ 28,333</b>	<b>\$ 41,320</b>	<b>\$ (9,474)</b>	<b>\$ 31,846</b>	<b>\$ –</b>	<b>\$ 31,846</b>
<b>Expenditures for non-current assets:</b>								
Acquisition of properties	\$ 65,128	\$ –	\$ –	\$ 65,128	\$ –	\$ 65,128	\$ –	\$ 65,128
Capital additions	12,848	1,469	4,784	19,101	1,335	20,436	(175)	20,261

<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, share of net income from joint ventures and income tax.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 12. Segmented information (continued):

	Nine months ended September 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	\$ 371,069	\$ 159,723	\$ 162,052	\$ 692,844	\$ –	\$ 692,844	\$ (76,857)	\$ 615,987
Lease revenue from joint ventures	–	–	–	–	5,635	5,635	–	5,635
Loan interest	–	–	–	–	–	–	24,486	24,486
	–	–	–	–	269	269	–	269
	371,069	159,723	162,052	692,844	5,904	698,748	(52,371)	646,377
Expenses (income):								
Direct operating	240,891	138,601	111,655	491,147	–	491,147	(48,111)	443,036
General, administrative and trust	–	–	–	–	24,632	24,632	–	24,632
	240,891	138,601	111,655	491,147	24,632	515,779	(48,111)	467,668
Income (loss) before the undernoted <sup>(1)</sup>	130,178	21,122	50,397	201,697	(18,728)	182,969	(4,260)	178,709
Finance costs (recovery):								
Contractual interest	42,836	9,219	25,815	77,870	7,007	84,877	(1,163)	83,714
Other	3	(717)	1,266	552	788	1,340	(15)	1,325
Property lease expense	94	202	1,743	2,039	–	2,039	–	2,039
Other expense (income):								
Interest	(126)	(2,714)	(3,383)	(6,223)	(1,040)	(7,263)	94	(7,169)
Other	(5,967)	(5)	(34,561)	(40,533)	(49)	(40,582)	(157)	(40,739)
Depreciation and amortization	80,162	7,539	36,886	124,587	2,189	126,776	(2,133)	124,643
Share of net income from joint ventures	–	–	–	–	–	–	(881)	(881)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	37	–	(1,174)	(1,137)	8,051	6,914	–	6,914
	117,039	13,524	26,592	157,155	16,946	174,101	(4,255)	169,846
Income (loss) before income taxes	13,139	7,598	23,805	44,542	(35,674)	8,868	(5)	8,863
Income tax expense (benefit)	(4)	–	2,489	2,485	(1,618)	867	(5)	862
<b>Net income (loss)</b>	<b>\$ 13,143</b>	<b>\$ 7,598</b>	<b>\$ 21,316</b>	<b>\$ 42,057</b>	<b>\$ (34,056)</b>	<b>\$ 8,001</b>	<b>\$ –</b>	<b>\$ 8,001</b>
Expenditures for non-current assets:								
Acquisition of properties	\$ 97,128	\$ –	\$ –	\$ 97,128	\$ –	\$ 97,128	\$ –	\$ 97,128
Capital additions	31,503	5,256	11,995	48,754	2,828	51,582	(524)	51,058

<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), share of net income from joint ventures and income tax.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 12. Segmented information (continued):

Three months ended September 30, 2013								
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
<b>Revenue:</b>								
Resident	\$ 122,920	\$ 52,889	\$ 57,805	\$ 233,614	\$ –	\$ 233,614	\$ (25,170)	\$ 208,444
Management and other fees	–	–	–	–	2,164	2,164	–	2,164
Lease revenue from joint ventures	–	–	–	–	–	–	7,960	7,960
Loan interest	–	–	–	–	32	32	–	32
	122,920	52,889	57,805	233,614	2,196	235,810	(17,210)	218,600
<b>Expenses (income):</b>								
Direct operating	78,915	45,864	38,183	162,962	–	162,962	(15,479)	147,483
General, administrative and trust	–	–	–	–	6,800	6,800	–	6,800
	78,915	45,864	38,183	162,962	6,800	169,762	(15,479)	154,283
Income (loss) before the undernoted <sup>(1)</sup>	44,005	7,025	19,622	70,652	(4,604)	66,048	(1,731)	64,317
<b>Finance costs (recovery):</b>								
Contractual interest	13,422	3,285	10,219	26,926	1,828	28,754	(328)	28,426
Other	(48)	(683)	230	(501)	257	(244)	(6)	(250)
Property lease expense	32	68	582	682	–	682	–	682
<b>Other expense (income):</b>								
Interest	(96)	(927)	(7)	(1,030)	(19)	(1,049)	28	(1,021)
Other	457	–	327	784	14	798	(63)	735
Depreciation and amortization	26,481	4,078	10,378	40,937	703	41,640	(1,029)	40,611
Share of net income from joint ventures	–	–	–	–	–	–	(333)	(333)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	13	(100)	–	(87)	(2,987)	(3,074)	–	(3,074)
	40,261	5,721	21,729	67,711	(204)	67,507	(1,731)	65,776
Income (loss) before income taxes	3,744	1,304	(2,107)	2,941	(4,400)	(1,459)	–	(1,459)
Income tax expense	–	–	65	65	–	65	–	65
<b>Net income (loss)</b>	<b>\$ 3,744</b>	<b>\$ 1,304</b>	<b>\$ (2,172)</b>	<b>\$ 2,876</b>	<b>\$ (4,400)</b>	<b>\$ (1,524)</b>	<b>\$ –</b>	<b>\$ (1,524)</b>
<b>Expenditures for non-current assets:</b>								
Acquisition of properties	\$ 21,500	\$ –	\$ –	\$ 21,500	\$ –	\$ 21,500	\$ –	\$ 21,500
Capital additions	12,203	3,360	3,891	19,454	953	20,407	(360)	20,047

<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), share of net income from joint ventures and income tax.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 12. Segmented information (continued):

Nine months ended September 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	\$ 361,356	\$ 154,583	\$ 172,841	\$ 688,780	\$ –	\$ 688,780	\$ (78,014)	\$ 610,766
Lease revenue from joint ventures	–	–	–	–	6,024	6,024	–	6,024
Loan interest	–	–	–	–	–	–	23,351	23,351
	–	–	–	–	128	128	–	128
	361,356	154,583	172,841	688,780	6,152	694,932	(54,663)	640,269
<b>Expenses (income):</b>								
Direct operating	234,502	133,931	117,695	486,128	–	486,128	(48,881)	437,247
General, administrative and trust	–	–	–	–	22,469	22,469	–	22,469
	234,502	133,931	117,695	486,128	22,469	508,597	(48,881)	459,716
Income (loss) before the undernoted <sup>(1)</sup>	126,854	20,652	55,146	202,652	(16,317)	186,335	(5,782)	180,553
<b>Finance costs (recovery):</b>								
Contractual interest	39,725	9,892	31,675	81,292	4,659	85,951	(1,978)	83,973
Other	(356)	(1,394)	822	(928)	805	(123)	(54)	(177)
Property lease expense	95	202	1,722	2,019	–	2,019	–	2,019
<b>Other expense (income):</b>								
Interest	(195)	(2,821)	(9)	(3,025)	(58)	(3,083)	62	(3,021)
Other	458	–	(46,280)	(45,822)	271	(45,551)	48,173	2,622
Depreciation and amortization	74,120	8,895	35,356	118,371	2,043	120,414	(2,858)	117,556
Share of net income from joint ventures	–	–	–	–	–	–	(49,127)	(49,127)
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	34	(297)	–	(263)	(9,684)	(9,947)	–	(9,947)
	113,881	14,477	23,286	151,644	(1,964)	149,680	(5,782)	143,898
Income (loss) before income taxes	12,973	6,175	31,860	51,008	(14,353)	36,655	–	36,655
Income tax expense	–	–	194	194	–	194	–	194
<b>Net income (loss)</b>	<b>\$ 12,973</b>	<b>\$ 6,175</b>	<b>\$ 31,666</b>	<b>\$ 50,814</b>	<b>\$ (14,353)</b>	<b>\$ 36,461</b>	<b>\$ –</b>	<b>\$ 36,461</b>
<b>Expenditures for non-current assets:</b>								
Acquisition of properties	\$ 40,500	\$ –	\$ –	\$ 40,500	\$ –	\$ 40,500	\$ –	\$ 40,500
Capital additions	24,323	7,248	8,860	40,431	3,733	44,164	(714)	43,450

<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), share of net income from joint ventures and income tax.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 12. Segmented information (continued):

September 30, 2014	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 1,831,933	\$ 285,519	\$ 583,185	\$ 2,700,637	\$ 20,675	\$ 2,721,312	\$ (25,320)	\$ 2,695,992
Total liabilities	\$ 1,264,282	\$ 223,272	\$ 527,528	\$ 2,015,082	\$ 239,895	\$ 2,254,977	\$ (25,320)	\$ 2,229,657

December 31, 2013	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 1,869,445	\$ 290,022	\$ 692,080	\$ 2,851,547	\$ 11,675	\$ 2,863,222	\$ (25,260)	\$ 2,837,962
Total liabilities	\$ 1,273,330	\$ 234,069	\$ 633,284	\$ 2,140,683	\$ 213,305	\$ 2,353,988	\$ (25,260)	\$ 2,328,728

## 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:

	September 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	\$ 1,894,281	\$ 1,952,049	\$ 2,004,236	\$ 2,025,702
Credit Facility	49,000	49,000	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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## 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, 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 September 30, 2014, the mortgages payable were discounted using rates between 2.03% and 4.92% (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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 14. Other income:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest and other income	\$ (962)	\$ (1,021)	\$ (7,169)	\$ (3,021)
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivable	–	–	(1,245)	–
Gain on sale of assets	(41,304)	(111)	(42,725)	(111)
Gain recorded on remeasurement of previously held interest on acquisition (note 2)	–	–	(435)	–
Transaction costs arising on business acquisitions and dispositions	1,937	846	3,666	2,733
<b>Other income</b>	<b>\$ (40,329)</b>	<b>\$ (286)</b>	<b>\$ (47,908)</b>	<b>\$ (399)</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 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. The portfolio had a carrying amount of \$65,391 at the time of disposal (note 14). Chartwell recorded a gain on sale of assets of \$351.

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

On July 2, 2014, Chartwell and its joint venture partner completed the previously announced sale of a property located in Ontario for \$24,500 for 100% interest. Chartwell owned a 50% interest in this property. The balance of the purchase price, net of closing costs, was received in cash. The property had a carrying amount of \$6,475 at the time of disposal. Chartwell recorded a gain on sale of assets of \$5,775.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

## 14. Other income (continued):

On July 30, 2014, Chartwell completed the previously announced sale of four U.S. properties comprising 827 suites located in the U.S. (the "Portfolio"). The sale price for the Portfolio was \$146,988 (U.S. \$136,100). The balance of the purchase price, net of closing costs, was received in cash. Mortgages of \$93,145 (U.S. \$86,245), related to the properties, were discharged at closing. Chartwell recorded a gain on sale of assets of \$35,656 (U.S. \$32,600).

## 15. Finance costs:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Contractual interest expense on mortgages	\$ 23,642	\$ 25,953	\$ 73,778	\$ 76,778
Interest expense on convertible debentures	1,939	1,939	5,755	5,755
Credit facility and other interest expense (a)	632	534	4,181	1,440
	26,213	28,426	83,714	83,973
Interest capitalized to properties under development	(97)	(564)	(228)	(1,045)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	431	90	886	196
Distributions on Class B Units recorded as interest expense	221	224	667	672
<b>Total finance costs</b>	<b>\$ 26,768</b>	<b>\$ 28,176</b>	<b>\$ 85,039</b>	<b>\$ 83,796</b>

(a) Chartwell early refinanced certain 2014 and 2015 maturing mortgages, incurring early mortgage repayment costs of \$114 and \$2,512, for the three months and nine months ended September 30, 2014 respectively, 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 the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Changes in fair value of convertible debentures	\$ (527)	\$ (4,725)	\$ 3,820	\$ (6,750)
Changes in fair value of interest rate swaps	7	(87)	37	(263)
Unrealized foreign exchange losses (gains)	637	629	705	(1,299)
Changes in fair value of LTIP option component	185	597	1,109	72
Changes in fair value of Class B Units	197	382	1,584	(1,309)
Changes in fair value of DTUs	163	130	833	(398)
Change in fair value of lease purchase option	17	–	(1,174)	–
<b>Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)</b>	<b>\$ 679</b>	<b>\$ (3,074)</b>	<b>\$ 6,914</b>	<b>\$ (9,947)</b>

## 17. Income taxes:

Income tax expense for the three and nine months ended September 30, 2014 was impacted by changes in the recognition of certain previously unrecognized losses. The effective tax rates for the three and nine months ended September 30, 2014 differ from the expected statutory rates as a result of this and also certain non-taxable gains and losses, differences in the applicable US and Canadian tax rates, and the impact of distributions in Canada. Income tax expense for the nine months ended September 30, 2014 was also impacted by a change in estimate for a recovery of specified investment flow-through ("SIFT") tax relating to an earlier taxation year.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2014 and 2013  
(Unaudited)

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## **18. Subsequent events:**

Subsequent to September 30, 2014 Chartwell advanced a mezzanine loan of \$1,455 to Batimo for the development of a 90-suite retirement residence. This loan bears interest at 10.00% and is secured by first and second charges on Batimo's interests in certain operating and development seniors' housing projects and vacant land, as well as by Batimo's corporate guarantee. The loan has a five-year term to maturity which can be extended by an additional two years subject to satisfaction of certain conditions.

In addition Chartwell advanced two other loans to Batimo totalling \$2,446. These loans have five-year terms to maturity, bear interest at 8.00% and carry security packages similar to the one described above. All loans to Batimo contain certain cross collateralization and cross-default provisions.