

Consolidated Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

Years ended December 31, 2015 and 2014



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Retirement Residences

We have audited the accompanying consolidated financial statements of Chartwell Retirement Residences, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, the consolidated statements of comprehensive income (loss), unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chartwell Retirement Residences as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

February 25, 2016  
Toronto, Canada

# CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets  
(In thousands of Canadian dollars)

December 31, 2015 and 2014

	Note	2015	2014
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 3,002	\$ 10,927
Trade and other receivables		7,948	18,940
Capital funding receivable	6	5,243	4,963
Other assets	7	16,938	24,641
Assets held for sale		–	5,306
Total current assets		33,131	64,777
Non-current assets:			
Other assets	7	3,733	7,008
Loans receivable	8	15,764	9,901
Capital funding receivable	6	56,198	61,506
Investment in joint ventures	9(b)	33,993	23,431
Intangible assets	5	57,202	49,025
Property, plant and equipment ("PP&E")	4	2,399,368	2,489,601
Total non-current assets		2,566,258	2,640,472
Total assets		\$ 2,599,389	\$ 2,705,249
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	10(b)	\$ 32,000	\$ 45,500
Accounts payable and other liabilities	12	114,036	124,221
Distributions payable		8,243	7,954
Mortgages payable	10(a)	159,699	372,184
Liabilities related to assets held for sale		–	6,086
Total current liabilities		313,978	555,945
Non-current liabilities:			
Mortgages payable	10(a)	1,371,659	1,544,892
Deferred consideration on business combinations		1,535	–
Convertible debentures	11	161,754	151,200
Class B Units of Chartwell Master Care LP ("Class B Units")	14	20,943	19,614
Total non-current liabilities		1,555,891	1,715,706
Total liabilities		1,869,869	2,271,651
Unitholders' equity	15	729,520	433,598
Commitments and contingencies	24		
Subsequent events	24(b), 26		
Total liabilities and unitholders' equity		\$ 2,599,389	\$ 2,705,249

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Huw Thomas" Trustee "Sidney Robinson" Trustee

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

	Note	2015	2014 (Restated - note 13)
<b>Revenue:</b>			
Resident		\$ 643,914	\$ 611,265
Management and other fees		7,815	7,483
Lease revenue from joint ventures	9(b)	33,000	32,636
Interest on loans receivable		1,142	461
		685,871	651,845
<b>Expenses:</b>			
Direct operating		463,535	446,353
General, administrative and trust		30,771	31,582
		494,306	477,935
<b>Income before the undernoted<sup>(1)</sup></b>			
		191,565	173,910
Finance costs	21	(72,077)	(76,384)
Other income, net	20	2,669	10,347
Depreciation of PP&E	4	(113,756)	(120,332)
Amortization of intangible assets	5	(661)	(1,495)
Changes in fair values of financial instruments and foreign exchange losses	22	(2,291)	(15,617)
Share of net income (loss) from joint ventures	9(b)	(186)	1,319
		5,263	(28,252)
<b>Income (loss) before income taxes</b>			
<b>Income tax (expense) benefit:</b>			
Current	23	(1,340)	2,222
Deferred		8,216	–
		6,876	2,222
<b>Income (loss) from continuing operations</b>			
		12,139	(26,030)
<b>Net income from discontinued operations, net of income taxes</b>			
	13	350,094	17,751
<b>Net income (loss)</b>			
		362,233	(8,279)
<b>Other comprehensive income (loss) items:</b>			
Unrealized foreign currency income on translation of foreign operations considered discontinued operations		5,945	7,027
Reclassification of foreign currency translation differences on disposition of US segment		(10,599)	–
<b>Total comprehensive income (loss)</b>			
		\$ 357,579	\$ (1,252)

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

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

2015	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, 2014	\$ 1,743,786	\$ 17,873	\$ (13,950)	\$ (521,537)	\$ 4,654	\$ (803,897)	\$ 6,669	\$ 433,598
Net income for the year	–	–	–	362,233	–	–	–	362,233
Other comprehensive loss	–	–	–	–	(4,654)	–	–	(4,654)
Distributions to unitholders	–	–	–	–	–	(96,553)	–	(96,553)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	18,574	–	–	–	–	–	–	18,574
Trust Units issued on conversion of convertible debentures	149	–	–	–	–	–	–	149
Trust Units issued on exchange of Class B Units	14,590	–	–	–	–	–	–	14,590
Trust Units issued under the Long Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	1,397	(984)	538	–	–	–	(123)	828
Interest on LTIP receivable	–	–	(134)	–	–	–	–	(134)
Distributions applied against LTIP receivable	–	–	889	–	–	–	–	889
Unitholders' equity, December 31, 2015	\$ 1,778,496	\$ 16,889	\$ (12,657)	\$ (159,304)	\$ –	\$ (900,450)	\$ 6,546	\$ 729,520

During the year ended December 31, 2015, distributions were declared and paid at \$0.045 per unit per month for the months of January and February, and \$0.0459 from March to December. In the first two months of 2016, distributions were declared at \$0.0459 per unit per month totalling \$16,354.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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 year	–	–	–	(8,279)	–	–	–	(8,279)
Other comprehensive income	–	–	–	–	7,027	–	–	7,027
Distributions to unitholders	–	–	–	–	–	(94,103)	–	(94,103)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	17,408	–	–	–	–	–	–	17,408
Trust Units issued on vesting of deferred trust units ("Deferred Trust Units")	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	1,205	(3,421)	2,349	–	–	–	725	858
Interest on LTIP receivable	–	–	(165)	–	–	–	–	(165)
Distributions applied against LTIP receivable	–	–	1,009	–	–	–	–	1,009
<b>Unitholders' equity, December 31, 2014</b>	<b>\$ 1,743,786</b>	<b>\$ 17,873</b>	<b>\$ (13,950)</b>	<b>\$ (521,537)</b>	<b>\$ 4,654</b>	<b>\$ (803,897)</b>	<b>\$ 6,669</b>	<b>\$ 433,598</b>

During the year ended December 31, 2014, distributions were declared and paid at \$0.045 per unit per month.

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

	Note	2015	2014
Cash provided by (used in):			
Operating activities:			
Net income (loss)		\$ 362,233	\$ (8,279)
Items not affecting cash:			
Depreciation and amortization		128,542	169,863
Finance costs		89,016	111,496
Other income		(433,539)	(48,438)
Transaction costs arising from business acquisitions and dispositions		(25,562)	(3,913)
Interest on loans receivable		(1,142)	(461)
Non-cash compensation expense		1,503	1,540
Changes in fair values of financial instruments and foreign exchange losses		29,118	16,385
Current income taxes		57,516	–
Deferred income taxes		(8,216)	–
Share of net (income) loss from joint ventures		186	(1,230)
Other		650	727
Change in trade and other receivables		11,759	66
Change in other assets		1,380	1,362
Change in accounts payable and other liabilities		(10,245)	(12,975)
		203,199	226,143
Interest and other income received		3,487	8,158
Interest paid		(90,865)	(110,926)
Net cash provided by operating activities		115,821	123,375
Financing activities:			
Proceeds from mortgage financing		282,792	206,788
Mortgage repayments		(184,440)	(200,694)
Changes to Credit Facility		(13,500)	18,500
Scheduled mortgage principal repayments		(56,079)	(57,175)
Net additions to finance costs		(3,738)	(5,049)
Distributions paid		(76,935)	(75,781)
Net cash used in financing activities		(51,900)	(113,411)
Investing activities:			
Acquisition of assets under business combinations		(412,198)	(44,315)
Additions to PP&E and intangible assets		(84,395)	(85,834)
Proceeds from disposal of PPE, net of related debt repayment		479,809	111,279
Proceeds from capital funding receivable		5,028	4,710
Loans receivable advances, net of collections		(5,818)	(2,656)
Change in restricted cash		10,206	2,192
Distributions received from joint ventures	9(b)	60,251	6,118
Contributions to joint ventures	9(b)	(77,591)	–
Taxes paid on disposal of discontinued operations		(47,602)	–
Net cash used in investing activities		(72,310)	(8,506)
Increase (decrease) in cash		(8,389)	1,458
Foreign exchange gain on U.S. dollar-denominated cash		464	868
Cash and cash equivalents, beginning of year		10,927	8,601
Cash and cash equivalents, end of year		\$ 3,002	\$ 10,927

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements

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

Years ended December 31, 2015 and 2014

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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.

Chartwell owns 100% of the outstanding Trust Units of CSH Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario, Canada, which in turn owns 56.9% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba, Canada. Class B Units of Master LP are held by non-controlling investors. Chartwell also has direct ownership of 43.1% of Class A Units of Master LP.

The Canadian assets of Chartwell are held by the wholly owned Master LP, which carries out the business of Chartwell. Its activities are financed through equity contributed by Chartwell, CSH Trust, Class B unitholders and debt, including mortgages.

The United States assets of Chartwell that were owned indirectly by Master LP, through its wholly owned United States subsidiary corporation, CSH Master Care USA Inc. were disposed of on June 30, 2015, and the results of operations are classified as discontinued operations in these consolidated financial statements (note 13).

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Board of Trustees.

## 1. Basis of preparation:

### (a) Statement of compliance:

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

On February 25, 2016, the Board of Trustees authorized the consolidated financial statements for issue.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 1. Basis of preparation (continued):

### (b) Functional currency:

These consolidated financial statements are presented in Canadian dollars, Chartwell's functional currency, unless otherwise indicated.

### (c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items:

- (i) derivative financial instruments are measured at fair value;
- (ii) financial instruments classified as fair value through profit and loss ("FVTPL") are measured at fair value; and
- (iii) liabilities for cash-settled, unit-based payment arrangements are measured at fair value.

### (d) Use of estimates and judgments:

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

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

- (i) Note 2(e) - Impairment of property plant and equipment;
- (ii) Note 5 - Impairment of indefinite life intangible assets; and
- (iii) Note 23 - Income taxes; availability of future taxable profit for the recognition of deferred income tax assets.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 1. Basis of preparation (continued):

In the process of applying the accounting policies, Chartwell makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognized in the consolidated financial statements. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- (i) Note 2(d)(i) - Intangible assets - licenses: assessment of indefinite useful life;

## 2. Significant accounting policies:

### (a) Basis of consolidation:

- (i) Transactions eliminated on consolidation:

The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint operations. All intercompany transactions have been eliminated on consolidation.

- (ii) Joint arrangements:

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

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (iii) Business combinations:

Under the acquisition method identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill represents the cost of acquired net assets in excess of their fair value. If the fair value of the net identifiable assets acquired exceeds the fair value of consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities (finder's fees, legal fees, due diligence fees, and other professional and consulting fees), incurred in connection with the acquisition are expensed as incurred.

If a business combination is achieved in stages, the fair value on the acquisition date of Chartwell's previously held equity interest in the acquiree is remeasured to fair value through profit or loss.

### (b) Foreign currency:

#### (i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the respective functional currencies at the exchange rate at the reporting dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### (ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates in effect as at the consolidated balance sheet dates.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

Revenue and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the dates on which such items are reported in income during the year.

Exchange gains and losses arising from translation of the financial statements of Chartwell's foreign operations are deferred and included in other comprehensive income.

### (c) PP&E:

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

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

Properties under development and land held for development are carried at cost and are not subject to depreciation. Cost includes initial acquisition costs, other direct costs, realty taxes and interest related to their financing during the development period. The development period ends when the asset is available for use and construction is complete. Upon completion, properties under development are transferred to the appropriate asset class.

Significant parts of the buildings have different useful lives and are accounted for as separate components of the property. The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to Chartwell, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of ongoing repairs and maintenance of the properties are recognized in profit and loss as incurred.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

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

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

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Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. The rates and methods used are reviewed annually at year end to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing.

Gains/losses on disposition of PP&E are recognized in profit or loss when Chartwell has transferred to the purchaser the significant risk and rewards of ownership of the PP&E and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

The value associated with in-place resident contracts, which represents the avoided cost of originating the acquired resident contracts plus the value of lost net resident revenue over the estimated lease-up period of the property, is amortized over the expected term of the resident occupancy. Resident contracts are recorded as a component of buildings.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (d) Intangible assets:

Intangible assets include licenses, goodwill arising on business combinations, management contracts and other intangible assets, which are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of goodwill and intangible assets with an indefinite life, which are measured at cost less accumulated impairment losses and are not amortized.

#### (i) Licenses:

Licenses for the operation of long term care properties are considered to have indefinite lives. Given the current demographic of the Canadian markets, as well as the fact that the demand for licensed beds is expected to increase beyond its current supply, management has determined that the licenses have an indefinite life.

#### (ii) Other intangible assets:

Other intangible assets consist of software costs and management contracts.

Software costs, which include externally purchased software licenses, are amortized over one to three years on a straight-line basis.

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors residences and long term care properties owned by third parties. Management contracts are amortized on a straight-line basis over the term of the contract or if no term is specified, over its estimated life not to exceed five years.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (iii) Goodwill:

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination and is measured at cost less any accumulated impairment losses.. An impairment loss is not reversed in subsequent years.

### (e) Impairment:

#### (i) Financial assets:

Financial assets carried at amortized cost are assessed at each reporting date to determine whether there is objective evidence indicating the assets might be impaired. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due to Chartwell on terms that Chartwell would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

Chartwell considers evidence of impairment for receivables at both a specific asset and collective level. All receivables are assessed for specific impairment. All receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance against the associated account receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

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

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

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

Goodwill is tested for impairment at least annually or whenever indicators of impairment of the cash-generating unit to which the goodwill relates have occurred.

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

Chartwell's corporate assets do not generate separate cash flows. If there is an indication that a corporate asset, intangible asset that has an indefinite useful life, or intangible asset with a finite useful life may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed (excluding for goodwill) if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (f) Capital funding:

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

### (g) Non-current assets held for sale and discontinued operations:

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held-for-sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to dispose of the assets of the disposal group; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Immediately before classification as held-for-sale, the assets, or components of the disposal group are remeasured in accordance with Chartwell's accounting policies, and are subsequently measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss until the completion of sale.

A discontinued operation is a component of Chartwell's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as discontinued operations occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income (loss) is restated as if the operations had been discontinued from the start of the comparative period.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (h) Financial instruments:

#### (i) Non-derivative financial assets:

Trade and other receivables, loans receivable and cash and restricted cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Receivables related to income guarantees are classified as FVTPL and any gains and losses arising on remeasurement are recognized in profit or loss.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Chartwell is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when Chartwell has a legal right to offset the amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets are presented as current assets on the consolidated balance sheets, except for those with maturities greater than 12 months after the consolidated balance sheet dates, which are classified as non-current assets.

#### (ii) Other financial liabilities:

Non-derivative financial liabilities primarily consist of accounts payable and other liabilities, distributions payable, mortgages payable, and revolving Credit Facility. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

A financial liability is derecognized when Chartwell's contractual obligations are discharged, cancelled or expired.

### (iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred and are subsequently remeasured to their fair value at the end of each reporting year. Any resulting gain or loss is recognized in profit or loss immediately.

Chartwell enters into interest rate swap arrangements from time to time in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. In such cases, payments received under the interest rate swap arrangements are classified as interest expense. These swap arrangements are not designated as hedging instruments under IFRS.

### (iv) Financial liabilities measured at fair value:

Financial liabilities elected to be measured at fair value are designated as FVTPL.

A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"), permits the entire combined contract, asset or liability, to be designated as FVTPL.

The convertible debentures, Class B Units and deferred consideration are designated as FVTPL. Any gains or losses arising on remeasurement are recognized in profit or loss. Interest paid on convertible debentures and distributions paid to Class B unitholders are recognized as interest expense under finance costs in profit or loss.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (v) Fair value hierarchy:

Fair value measurements are categorized into one of the three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities: Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets; Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

### (i) Employee benefits:

#### (i) Short term benefits:

Short term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as Chartwell has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short term employee benefits are recorded in accounts payable and other liabilities.

#### Employee health benefits:

Chartwell self-insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self-insured liabilities include estimates of costs of both reported claims and claims incurred but not reported and are based on estimates of loss based on assumptions made by management, including consideration of projections provided by the independent third-party administrator of the plan.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (ii) Unit-based payment plans:

Chartwell maintains LTIPs, Deferred Trust Unit Plans, and Restricted Unit Plans for its employees, directors and Trustees. These plans are considered cash-settled and the fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

### (j) Income taxes:

Income tax expense (recovery) comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in unitholders' equity or in other comprehensive income (loss).

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

Chartwell is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada). Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

Chartwell uses the asset and liability method of accounting for income taxes. Under this method, deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (k) Revenue recognition:

Chartwell derives most of its revenue from rental income, care services to residents and management services.

### (i) Retirement community resident revenue:

Revenue in respect of accommodation and care services provided to residents of retirement communities is recognized when services, both rental and care are provided. In certain jurisdictions, residents of retirement communities are eligible for government subsidies and the rates of these subsidies are regulated. In Canada, in some jurisdictions, rent control regulations affect the rates that can be charged for rental accommodation.

### (ii) Long term care community resident revenue:

Revenue in respect of accommodation fees and ancillary services provided to residents of Canadian long term care communities is recognized when the rental or ancillary services are provided.

In Canada, the provinces or regional health authorities (collectively, the "funding agency") regulate the amounts charged to residents of long term care communities, a substantial portion of which are funded by provincial or regional programs. Such resident revenue earned is exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when Chartwell has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditure or levels of labour hours. Revenue is recognized when these criteria are achieved.

In certain cases, the funding agency provides additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when Chartwell has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (iii) Fee revenue:

Chartwell provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services to third parties and is recognized in the month in which services are performed in accordance with the terms of the management contract.

### (l) Lease payments:

Chartwell is obligated to make payments under land and equipment leases. Such leases are classified as operating leases and not recognized in the consolidated balance sheets as substantially all of the risks and rewards of ownership are not transferred to Chartwell. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### (m) IFRS amendments adopted on January 1, 2015:

Annual Improvements to IFRS (2010 - 2012) and (2011-2013) cycles:

On December 12, 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Amendments were made to clarify various standards including IFRS 2, Share-based Payment, with respect to the definition of "vesting conditions", classification and measurement of contingent consideration under IFRS 3, Business Combinations, IFRS 8, Operating segments for disclosures around segment aggregation, IFRS 13, Fair Value Measurement, for the measurement of short-term receivables and payables, and the definition of "related party" under IAS 24, Related Party Disclosures. The adoption of these amendments did not have a material impact on the consolidated financial statements.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

(n) IFRS standards and amendments issued but not yet effective:

(i) IFRS 9, Financial Instruments ("IFRS 9 (2014)"):

On July 24, 2014, the IASB issued the complete IFRS 9 (2014). The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, changes to financial liabilities, amendments to the impairment model for 'expected credit loss', and a new general hedge accounting standard which aligns hedge accounting more closely with risk management. Chartwell intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) Business combination accounting for interests in a joint operation (Amendments to IFRS 11, Joint Arrangements ("IFRS 11")):

On May 6, 2014, the IASB amended IFRS 11 related to the accounting for acquisitions of interests in joint operations. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments require business combination accounting to be applied to acquisitions of interest in joint operations that constitute a business. Chartwell is required to adopt the amendments to IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2016. Chartwell does not expect the amendment to have a material impact on the consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

- (iii) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16, Property, Plant and Equipment ("IAS 16") and IAS 38, Intangible Assets ("IAS 38")):

On May 12, 2014, the IASB issued amendments to IAS 16 and IAS 38. Under the amendments, revenue-based methods of depreciation can no longer be used for property, plant and equipment, and a rebuttable presumption that revenue-based methods are not appropriate has been introduced for intangible assets. Chartwell is required to adopt the amendments to IAS 16 and IAS 38 in its consolidated financial statements for the annual period beginning on January 1, 2016. Chartwell does not expect the amendments to have a material impact on the consolidated financial statements.

- (iv) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. Chartwell intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (v) Annual Improvements to IFRS (2012 - 2014) cycle:

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. The amendments clarify requirements of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, IFRS 7, Financial Instruments - Disclosures, IAS 19, Employee Benefits, and IAS 34, Interim Financial Reporting. Chartwell is required to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. Chartwell does not expect the amendments to have a material impact on the consolidated financial statements.

### (vi) Amendments to IAS 1:

On December 18, 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. Chartwell intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. Chartwell does not expect the amendments to have a material impact on the consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 2. Significant accounting policies (continued):

### (vii) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. Chartwell intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2015:

The following acquisitions are consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets, and are accounted for as business combinations under IFRS 3.

Date of acquisition	May 4, 2015	June 1, 2015	July 31, 2015	August 5, 2015	September 11, 2015	November 9, 2015				
Segment	Canadian Retirement Operations									
Location	Province of Ontario	Province of Ontario	Province of Ontario	Province of Quebec	Province of Ontario	Province of Ontario	Step and equity accounting			
Number of properties (suites)	1 (94 suites)	2 (268 suites) <sup>(1)</sup>	1 (257 suites)	1 (90 suites)	3 (447 suites)	5 (616 suites) <sup>(2)</sup>	Sub-total	adjustments <sup>(1)(2)</sup>	Total	
PP&E	\$ 22,100	\$ 41,120	\$ 83,979	\$ 15,223	\$ 169,319	\$ 259,131	\$ 590,872	\$ (34,881)	\$ 555,991	
Goodwill	–	–	–	–	–	8,216	8,216	–	8,216	
Deferred tax liability	–	–	–	–	–	(8,216)	(8,216)	–	(8,216)	
<b>Net assets acquired</b>	<b>\$ 22,100</b>	<b>\$ 41,120</b>	<b>\$ 83,979</b>	<b>\$ 15,223</b>	<b>\$ 169,319</b>	<b>\$ 259,131</b>	<b>\$ 590,872</b>	<b>\$ (34,881)</b>	<b>\$ 555,991</b>	
Cash consideration	\$ 22,100	\$ 20,274	\$ 83,979	\$ 4,686	\$ 169,800	\$ 187,359	\$ 488,198	(76,000)	\$ 412,198	
Mortgages assumed	–	20,846	–	9,244	–	56,636	86,726	20,846	107,572	
Income support receivable	–	–	–	(162)	(1,987)	–	(2,149)	–	(2,149)	
Mezzanine loan settled	–	–	–	1,455	–	–	1,455	–	1,455	
Deferred consideration	–	–	–	–	1,506	–	1,506	–	1,506	
Class B units issued	–	–	–	–	–	15,136	15,136	–	15,136	
Fair value of previously held interest	–	–	–	–	–	–	–	20,273	20,273	
	\$ 22,100	\$ 41,120	\$ 83,979	\$ 15,223	\$ 169,319	\$ 259,131	\$ 590,872	\$ (34,881)	\$ 555,991	

<sup>(i)</sup> Chartwell acquired the remaining interest in two previously held investments in joint arrangements. These figures represent the fair value of the remaining interests acquired. Step acquisition adjustments are included under the heading "Step and equity accounting adjustments".

<sup>(ii)</sup> This includes the acquisition of two investments in joint ventures. These investments are eliminated from the table under the heading "Step and equity accounting adjustments".

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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### 3. Acquisitions (continued):

On May 4, 2015, Chartwell acquired a 100% interest in a 94-unit retirement residence located in Thunder Bay, Ontario. The purchase price was \$22,100. The property has contributed revenue of \$2,305 and net loss of \$414 since the acquisition date. Chartwell incurred acquisition-related costs of \$773, which have been expensed in the consolidated statements of comprehensive income (loss).

On June 1, 2015, Chartwell acquired the remaining 50% interests in Valley Vista Retirement Residence ("Valley Vista") (151 suites) and Pickering City Centre Retirement Residence ("Pickering") (117 suites). Upon completion of these transactions, Chartwell owned a 100% interest in the properties. The purchase price was \$40,076 and was partially settled through the assumption of mortgages totalling \$19,802. A mortgage mark to market adjustment of \$1,044 was recorded on one of the assumed mortgages. Since these acquisitions were completed in steps, immediately before the acquisition Chartwell remeasured its original 50% interests to its fair value. This remeasurement has resulted in an increase in value of \$10,452, which has been recognized as a gain in other income, net in the consolidated statements of comprehensive income (loss). These properties have contributed revenue of \$6,210 and net loss of \$4,916 since the acquisition date. Chartwell incurred acquisition-related costs of \$673, which have been expensed in the consolidated statements of comprehensive income (loss).

On July 31, 2015, Chartwell acquired a 100% interest in the Grenadier Retirement Residence in Toronto, Ontario (257 suites). The purchase price was \$83,979 and was settled in cash. The property has contributed revenue of \$5,473 and net loss of \$1,799 since the acquisition date. Chartwell incurred acquisition-related costs of \$2,444, which have been expensed in the consolidated statements of comprehensive income (loss).

On August 5, 2015, Chartwell completed the acquisition of an 85% interest in a 90 suite addition (Phase II) to the existing 169 suite L'Unique retirement residence in Ste. Eustache, Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price of \$15,385 (\$18,100 at 100%) was settled through the assumption of a construction loan of \$9,244 (\$10,875 at 100%), settlement of the Chartwell mezzanine loan to Batimo of \$1,455 and cash. Batimo has provided Chartwell with an income support guarantee of up to \$162 if operating results fall below certain threshold amounts. L'Unique has contributed revenue of \$531 and net loss of \$301 since the acquisition date. Chartwell incurred acquisition-related costs of \$130, which have been expensed in the consolidated statements of comprehensive income (loss).

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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### 3. Acquisitions (continued):

On September 11, 2015, Chartwell acquired from three separate vendor groups, 100% interests in three retirement residences in Ontario totalling 447 suites and excess land for the development of up to 69 additional suites. The purchase price was \$171,645. Included in the purchase price is a deferred payment of \$1,845 due on the third anniversary of closing. This deferred consideration was recorded at its fair value of \$1,506. The vendor of another property provided Chartwell with an income support guarantee of up to \$2,500 if operating results fall below certain threshold amounts. This income support receivable was recorded at its fair value of \$1,987. The properties have contributed revenue of \$5,389 and net loss of \$4,887 since the acquisition date. Chartwell incurred acquisition-related costs of \$4,108 which have been expensed in the consolidated statements of comprehensive income (loss).

On November 9, 2015 Chartwell acquired interests in five retirement residences in Ontario with a total of 616 suites, from five separate groups of vendors for an aggregate purchase price of \$254,007 before closing costs, mortgage mark to market and tax adjustments. The purchase price was settled by the assumption of two mortgages totaling \$51,512, bearing interest at a weighted average interest rate of 4.5% with the average term to maturity of 4.6 years, the issuance of \$15,136 of Class B Units and cash. One of the acquired properties is subject to a land lease that expires in 2056. Chartwell recorded a mortgage mark to market adjustment of \$5,124 with respect to the assumed mortgages. Chartwell also recorded a deferred tax liability and goodwill in amount of \$8,216.

The acquisitions of two properties have been structured as acquisitions of interests in limited partnerships that own the related retirement residences. Chartwell owns all outstanding Class C units of the partnerships and the affiliates of the vendors own all outstanding Class R units. Under the partnership agreements Class C units are entitled to quarterly distributions totaling \$4,750 for 2016, increasing by 3% per annum thereafter until December 31, 2018. Class R units are entitled to residual distributions up to a certain maximum. Once such maximum is achieved, the remaining distributions will be made in the ratio of 65% to Class C units and 35% to Class R units. The vendors of these properties and their affiliates provided the limited partnerships with the net operating income guarantees sufficient to effect the required Class C distributions. Signature Senior Living, an affiliate of one of the vendors, will continue to manage these two properties until December 31, 2018. In January 2019 Chartwell will be required to acquire all outstanding Class R units. The purchase price will be equal to the excess of the actual combined net operating income achieved for the year ended December 31, 2018, over the guaranteed income for that year, divided by 6.25%. Chartwell's interests in these properties are accounted for using the equity method of accounting (note 9).

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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### 3. Acquisitions (continued):

The three properties in which Chartwell has a direct interest and which have been accounted for as business combinations, have contributed revenue of \$3,244 and net loss of \$2,931 since the acquisition date. Chartwell incurred acquisition-related costs of \$2,790 with respect to these three properties, which has been expensed in the consolidated statements of comprehensive income (loss).

#### (b) Acquisitions during the year ended December 31, 2014:

Chartwell completed three acquisitions for the year ended December 31, 2014. The acquisitions are consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets, and are accounted for as business combinations.

On January 2, 2014, Chartwell acquired the remaining 66.67% interest in Robert Speck Retirement Residence ("Robert Speck") (113 suites) from its joint operating partners. Upon completion of this transaction, Chartwell owned 100% interest in the property. The purchase price for the remaining 66.67% was \$21,333 and was partially paid for through the assumption of a \$15,200 mortgage. Since the Robert Speck acquisition was completed in steps, immediately before the acquisition Chartwell remeasured its original 33.33% interest to its fair value of \$10,667. This remeasurement has resulted in an increase in value of \$435, which has been recognized as a gain in the consolidated statements of comprehensive income (loss). Robert Speck has contributed revenue of \$3,483 (2014 - \$3,009) and net loss of \$836 (2014 - \$1,886) since the acquisition date. Chartwell incurred acquisition-related costs of \$355, which have been expensed in the consolidated statements of comprehensive income (loss) in 2014.

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. The property has contributed revenue of \$3,450 (2014 - \$1,701) and net loss of \$257 (2014 - \$267) since the acquisition date. Chartwell incurred acquisition-related costs of \$395, which have been expensed in the consolidated statements of comprehensive income (loss) in 2014.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

### 3. Acquisitions (continued):

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 \$44,315. The properties have contributed revenue of \$6,570 (2014 - \$2,987) and net loss of \$1,058 (2014 - \$432) since the acquisition date. Chartwell incurred acquisition-related costs of \$1,067, which have been expensed in the consolidated statements of comprehensive income (loss) in 2014.

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred at Chartwell's ownership:

Date of acquisition	January 2, 2014	July 3, 2014	July 18, 2014			
Segment	Canadian Retirement Operations					
Location	Province of Ontario	Province of Québec	Province of Québec	Step accounting		Total
Number of suites	(113 suites) <sup>(1)</sup>	(151 suites)	(267 suites)	Sub-total	adjustments <sup>(1)</sup>	
PP&E	\$ 21,333	\$ 21,750	\$ 43,378	\$ 86,461	\$ 10,667	\$ 97,128
Other assets	–	–	907	907	–	907
Mortgages assumed	(15,200)	–	(27,853)	(43,053)	(7,600)	(50,653)
<b>Net assets acquired</b>	<b>\$ 6,133</b>	<b>\$ 21,750</b>	<b>\$ 16,432</b>	<b>\$ 44,315</b>	<b>\$ 3,067</b>	<b>\$ 47,382</b>
Cash consideration	\$ 6,133	\$ 21,750	\$ 16,432	\$ 44,315		

<sup>(1)</sup> Chartwell acquired the remaining interest in one previously held joint arrangement. These figures represent the fair value of the remaining interest acquired. Step acquisition adjustments are included under the heading "Step accounting adjustments".

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
<b>Cost</b>						
Balance, January 1, 2014	\$ 336,451	\$ 2,763,201	\$ 88,429	\$ 31,000	\$ 25,360	\$ 3,244,441
Additions	–	51,620	13,587	19,659	1,208	86,074
Additions through business combinations	11,066	84,186	1,876	–	–	97,128
Disposals	(26,901)	(216,086)	(4,932)	–	–	(247,919)
Derecognition	–	(43,477)	(7,102)	–	–	(50,579)
Transfers	1,875	30,363	3,097	(36,625)	–	(1,290)
Transfers to assets held for sale (note 13)	(1,632)	(4,111)	(475)	–	–	(6,218)
Exchange differences on translation of United States Operations	7,006	57,625	2,578	624	643	68,476
Balance, December 31, 2014	327,865	2,723,321	97,058	14,658	27,211	3,190,113
Additions	–	60,839	8,413	13,291	–	82,543
Additions through business combinations	34,212	509,674	11,105	–	1,000	555,991
Disposals	(90,973)	(749,075)	(33,541)	–	(9,839)	(883,428)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Transfers	547	10,268	628	(13,204)	–	(1,761)
Exchange differences on translation of United States Operations	5,206	42,331	1,864	–	504	49,905
Balance, December 31, 2015	\$ 276,857	\$ 2,567,935	\$ 84,530	\$ 14,745	\$ 18,876	\$ 2,962,943
<b>Accumulated depreciation and impairment losses</b>						
Balance, January 1, 2014	\$ –	\$ 560,923	\$ 51,853	\$ 2,422	\$ 1,103	\$ 616,301
Depreciation	–	146,712	20,747	–	–	167,459
Disposals	–	(45,321)	(2,499)	–	–	(47,820)
Derecognition	–	(43,477)	(7,102)	–	–	(50,579)
Transfers to assets held for sale (note 13)	–	(866)	(321)	–	–	(1,187)
Exchange differences on translation of United States Operations	–	14,650	1,688	–	–	16,338
Balance, December 31, 2014	–	632,621	64,366	2,422	1,103	700,512
Depreciation	–	114,687	12,939	–	–	127,626
Disposals	–	(223,734)	(25,746)	–	(1,103)	(250,583)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Impairment, net	–	3,755	–	–	–	3,755
Exchange differences on translation of United States Operations	–	11,320	1,365	–	–	12,685
Balance, December 31, 2015	\$ –	\$ 509,226	\$ 51,927	\$ 2,422	\$ –	\$ 563,575
<b>Carrying amounts</b>						
Balance, December 31, 2014	\$ 327,865	\$ 2,090,700	\$ 32,692	\$ 12,236	\$ 26,108	\$ 2,489,601
Balance, December 31, 2015	276,857	2,058,709	32,603	12,323	18,876	2,399,368

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

On June 1, 2015, Chartwell completed the step acquisition of Pickering and Valley Vista, purchasing the remaining 50% interest in the properties for \$40,076. As required under IFRS, the 100% fair value of assets acquired is included in additions through business combinations, and the fair value of the previously held 50% interests is included in disposals in the table above.

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% fair value of assets acquired 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 year ended December 31, 2015, Chartwell transferred two properties from properties under development to operating (2014 – two properties).

Chartwell capitalized \$240 of borrowing costs related to development projects under construction for the year ended December 31, 2015, at an average capitalization rate of 4.53%. During the year ended December 31, 2014, Chartwell capitalized \$239 of borrowing costs related to development projects under construction at an average capitalization rate of 4.96%.

During the years ended December 31, 2015 and 2014, Chartwell completed sales of various properties located in Canada and the U.S. (notes 13 and 20).

For the year ended December 31, 2015, Chartwell completed an assessment of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E. Chartwell recorded impairment provisions of \$5,381 on four properties located in Quebec and Ontario. In addition, in 2015 Chartwell entered into an agreement to sell two properties located in Quebec. As a result, previously recorded property impairment provisions of \$1,626 were reversed.

For the year ended December 31, 2014, Chartwell completed an assessment of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E. Chartwell concluded that no indicators existed based on operational results and management forecasts.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 5. Intangible assets:

	Goodwill	Licenses	Other <sup>(1)</sup>	Total
<b>Cost</b>				
Balance, December 31, 2013	\$ –	\$ 44,334	\$ 15,781	\$ 60,115
Additions	–	–	96	96
Transfers	–	–	1,290	1,290
Derecognition	–	–	(214)	(214)
Exchange differences on translation of United States Operations	–	–	834	834
Balance, December 31, 2014	–	44,334	17,787	62,121
Additions	–	–	2,095	2,095
Acquisitions	8,216	–	–	8,216
Disposals	–	–	(10,772)	(10,772)
Transfers	–	–	1,761	1,761
Exchange differences on translation of United States Operations	–	–	641	641
Balance, December 31, 2015	\$ 8,216	\$ 44,334	\$ 11,512	\$ 64,062
<b>Accumulated amortization and impairment losses</b>				
Balance, December 31, 2013	\$ –	\$ –	\$ 10,338	\$ 10,338
Amortization	–	–	2,404	2,404
Derecognition	–	–	(214)	(214)
Exchange differences on translation of United States Operations	–	–	568	568
Balance, December 31, 2014	–	–	13,096	13,096
Amortization	–	–	916	916
Disposals	–	–	(7,606)	(7,606)
Exchange differences on translation of United States Operations	–	–	454	454
Balance, December 31, 2015	\$ –	\$ –	\$ 6,860	\$ 6,860
<b>Carrying amounts</b>				
Balance, December 31, 2014	\$ –	\$ 44,334	\$ 4,691	\$ 49,025
Balance, December 31, 2015	8,216	44,334	4,652	57,202

<sup>(1)</sup> Other intangible assets consist of the allocated cost of acquired management contracts and software costs.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 5. Intangible assets (continued):

The carrying value of goodwill is reviewed at each reporting date to determine whether there exists any indicator of impairment. If any indicator exists, then the asset's recoverable amount is estimated and an impairment loss is recognized if the carrying amount of the asset or its related CGU exceeds the recoverable amount.

Chartwell completed its annual impairment assessment of the carrying value of licences, which are intangible assets with indefinite useful lives, on November 30, 2015, and November 30, 2014. Licences do not generate cash inflows that are largely independent of those of other assets and Chartwell completed the assessment of the recoverable amount of these licences by comparing the fair value less costs to sell of the related CGUs containing the licenses, determined using the discounted cash flow method, to their carrying values. The discounted cash flow method discounts the expected future cash flows, including the terminal value, at an appropriate market rate commensurate with the risk of the underlying cash flows. The terminal value is based on the application of a capitalization rate to estimated stabilized net operating income. The key assumptions used in the analysis include capitalization rates between 7.5% and 11% and a discount rate of 8.5% to 11%. Adjustments and capitalization rates were determined as management estimates based on review of market conditions, recent transactions and financing consideration. Chartwell determined that fair value less costs to sell exceeded the carrying value of the CGUs for the years ended December 31, 2015 and 2014.

## 6. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	Amount
Balance, December 31, 2013	\$ 71,179
Capital funding applied to receivable in the year	(4,710)
Balance, December 31, 2014	66,469
Capital funding applied to receivable in the year	(5,028)
Balance, December 31, 2015	\$ 61,441
Current	\$ 5,243
Non-current	56,198
	\$ 61,441

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 6. Capital funding receivable (continued):

The capital funding receivable of \$61,441 (2014 - \$66,469) represents the present value of the funding receivable from the Government of Ontario in respect of 15 long term care properties. The weighted average remaining term of this funding is approximately 10.2 years. The discount rate used on the receivables above is based on applicable Ontario Government Bond Rates. The receipt of funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long term care communities for the remaining period.

## 7. Other assets:

	2015	2014
Prepaid expenses and deposits	\$ 11,130	\$ 12,866
Restricted cash	2,199	9,349
Lease purchase option	—	4,232
Other assets	7,342	5,202
	<u>\$ 20,671</u>	<u>\$ 31,649</u>
Current	\$ 16,938	\$ 24,641
Non-current	3,733	7,008
	<u>\$ 20,671</u>	<u>\$ 31,649</u>

Other assets include receivables of \$3,264 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties to Chartwell (2014 - \$907). Income guarantees are considered Level 3 in the fair value hierarchy. Non-current other assets relate to the unamortized value of below-market value leases.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 8. Loans receivable:

	2015	2014
Vendor take back ("VTB") loans	\$ 7,483	\$ 6,000
Mezzanine and other loans	8,281	3,901
	<u>\$ 15,764</u>	<u>\$ 9,901</u>

In 2015, Chartwell advanced a VTB loan in connection with its sale of a non-core property. The VTB loan bears interest at the rate of 8% in year one, 10% in year two and 12% in year three and matures on June 1, 2018. At December 31, 2015, the outstanding balance on this loan was \$1,483.

VTB loans totalling \$6,000 bear interest at 8.00% and mature on May 1, 2017. The loans are secured by charges on seven 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 seven properties and its related parties.

Mezzanine and other loans are due from Batimo, mature between October 2019 and July 2020, bear interest at rates ranging from 8% to 10%, 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 and contain certain cross-collateralization and cross-default provisions.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 9. Joint arrangements:

As at December 31, 2015, the following are Chartwell's joint arrangements:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord <sup>(1)</sup>	38	Canada	50%	Joint operation
Chartwell-Welltower Operator <sup>(1)</sup>	38	Canada	50%	Joint venture <sup>(2)</sup>
Batimo <sup>(4)</sup>	4	Canada	85%	Joint operation
Oakville	1	Canada	50%	Joint venture <sup>(2)</sup>
Constantia	1	Canada	50%	Joint venture <sup>(2)</sup>
Riverside	1	Canada	50%	Joint operation
Churchill	1	Canada	50%	Joint operation
Kamloops	1	Canada	50%	Joint operation
Oak Ridges <sup>(3)</sup>	1	Canada	<sup>(3)</sup>	Joint venture <sup>(2)</sup>
Clair Hills <sup>(3)</sup>	1	Canada	<sup>(3)</sup>	Joint venture <sup>(2)</sup>

<sup>(1)</sup> Chartwell directly holds its interest in real estate while its interest in operations is held through separate legal entities.

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

<sup>(3)</sup> Chartwell owns a 100% of Class C units in these limited partnerships (note 3) which were formed on acquisition of two properties in 2015. Affiliates of the vendors of the properties hold Class R units in the limited partnerships.

<sup>(4)</sup> Includes one joint operation acquired in 2015.

Chartwell has entered into joint arrangements in respect of certain of its seniors housing operations as detailed in the table above. These joint arrangements are consistent with Chartwell's strategy by allowing a presence in markets or properties Chartwell otherwise would not have had access to. There are risks which arise from the joint arrangements, including: the willingness of the other partners to contribute or withdraw funds; a change in creditworthiness of the partner; the risk that the other partners may exercise buy sell, put or other sale or purchase rights which could obligate Chartwell to sell its interest or buy the other partners interest at a price which may not be favourable to Chartwell or at a time which may not be advantageous to Chartwell, the effect of which could be materially adverse to Chartwell's financial position or resources.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 9. Joint arrangements (continued):

- (a) At December 31, 2015, Chartwell has an interest in a number of joint operations, which have been accounted for under the proportionate consolidation method. The following is the summarized financial information in respect of the interests in these joint operations which is included line by line in the consolidated financial statements at Chartwell's share:

	2015	2014
Current assets	\$ 7,539	\$ 7,253
Non-current assets	455,235	445,971
<b>Total assets</b>	<b>\$ 462,774</b>	<b>\$ 453,224</b>
Current liabilities	\$ 64,140	\$ 66,732
Non-current liabilities	246,454	237,759
<b>Total liabilities</b>	<b>\$ 310,594</b>	<b>\$ 304,491</b>
Total revenue	\$ 50,542	\$ 44,890
Total expenses	\$ 43,136	\$ 51,029

- (b) The following tables summarize the information about Chartwell's investment in joint ventures which have been accounted for under the equity method:

	2015	2014
Distributions received from joint ventures	\$ 60,251	\$ 6,118
Contributions to joint ventures	77,591	–

In 2015, Chartwell acquired two properties by investing in newly formed limited partnerships, which own the assets (note 3). Total initial investments amounted to \$77,591. Subsequently the limited partnerships arranged for debt financing on the properties and distributed \$55,167 to Chartwell.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 9. Joint arrangements (continued):

	2015	2014
Current assets	\$ 13,542	\$ 10,452
Non-current assets	105,948	45,613
<b>Total assets</b>	<b>\$ 119,490</b>	<b>\$ 56,065</b>
Current liabilities	\$ 20,269	\$ 4,560
Non-current liabilities	65,228	28,074
<b>Total liabilities</b>	<b>\$ 85,497</b>	<b>\$ 32,634</b>
Net investment in joint ventures	\$ 33,993	\$ 23,431

Included in current assets is \$5,852 (2014 - \$3,705) in cash and cash equivalents.

	2015	2014
Revenue	\$ 106,213	\$ 103,055
Expenses	(106,399)	(101,736)
Chartwell's share of net income (loss) from joint ventures	\$ (186)	\$ 1,319

Related party transactions occur between Chartwell and its joint ventures. These 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 parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts payable and receivable, and in management fee income, as applicable. As of December 31, 2015, \$244 (2014 - \$638) of Chartwell's accounts receivable and \$4,625 (2014 - \$5,755) of Chartwell's accounts payable were due from/to its joint ventures. For the year ended December 31, 2015, \$5,555 (2014 - \$5,371) of Chartwell's management fees were earned from joint ventures.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 9. Joint arrangements (continued):

On June 1, 2015 Chartwell acquired the remaining 50% ownership interest in Pickering and Valley Vista. Previously Chartwell accounted for Pickering as a joint venture and for Valley Vista as a joint operation. As a result of obtaining control (note 3), Chartwell's net investment in joint ventures decreased by \$6,590.

Chartwell and Welltower Inc. (formerly Health Care REIT Inc.) ("Welltower") (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 38 properties 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-Welltower operator") and, under IFRS 11 is accounted for as joint ventures using the equity method. As a result of this relationship, included in accounts payable related to entities in which Chartwell invests in joint ventures, as noted above, is \$657 (2014 - \$1,901) as a result of transactions between properties landlords and Chartwell-Welltower operator.

Chartwell-Welltower operators have 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 Welltower 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, \$33,000 for the year ended December 31, 2015 (2014 - \$32,636), is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower operator lease expense is included in the share of net income (loss) from joint ventures in the consolidated statements of comprehensive income (loss).

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 10. Secured debt:

### (a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about Chartwell's exposure to interest rates and liquidity risks, see note 17.

The mortgages payable as at December 31, 2015 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
2016	\$ 49,013	\$ 108,940	\$ 157,953	10
2017	47,746	59,235	106,981	7
2018	47,359	70,073	117,432	8
2019	45,971	212,854	258,825	17
2020	46,170	109,562	155,732	10
2021	44,399	68,791	113,190	7
2022	40,810	62,200	103,010	7
2023	36,075	58,992	95,067	6
2024	26,597	127,797	154,394	10
2025	21,108	33,105	54,213	4
2026	19,527	1,528	21,055	1
2027	20,140	0	20,140	2
2028	27,232	18,925	46,157	3
2029	18,191	0	18,191	1
2030	17,639	3,996	21,635	1
Thereafter	65,688	22,253	87,941	6
	<u>\$ 573,665</u>	<u>\$ 958,251</u>	1,531,916	<u>100</u>
Mark-to-market adjustments on acquisition			18,795	
Financing costs			(19,353)	
			<u>\$ 1,531,358</u>	
Current			\$ 159,699	
Non-current			1,371,659	
			<u>\$ 1,531,358</u>	

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 10. Secured debt (continued):

	2015	2014
Mortgages at fixed rates:		
Mortgages (principal)	\$1,365,860	\$1,780,444
Interest rates	1.79 to 8.51%	1.96% - 8.51%
Weighted average interest rate	4.30%	4.91%
Mortgages at variable rates:		
Mortgages (principal)	\$166,056	\$141,377
Interest rates	Bankers acceptance plus 1.50% to prime plus 2.00%	Lender COF <sup>(i)</sup> plus 2.00% to prime plus 2.50%
Weighted average interest rate	3.01%	4.23%
Blended weighted average rate	4.16%	4.86%

<sup>(i)</sup> Cost of funds ("COF")

Mortgages totalling \$124,978 (2014 - \$21,628) have interest rates fixed through interest rate swap contracts with a fair value of \$803 (2014 - \$46)

### (b) Credit facility:

- (i) On June 1, 2015, Chartwell arranged a new Credit Facility for a three-year term expiring on June 1, 2018. The Credit Facility bears interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.80% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.80%, depending on the ratio of Chartwell's debt to adjusted gross book value of assets ("D/GBV"), as defined in the Credit Agreement. The Credit Facility is secured by charges on specific properties and includes minimum equity requirements and covenants which include requiring limitations on the amount of cash distributions that can be paid to unitholders. At December 31, 2015, the maximum available borrowing capacity under the Credit Facility was \$199,134 based on the security provided. Of this capacity, \$4,002 has been allocated to support various letters of credit issued by Chartwell and \$32,000 was drawn.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 10. Secured debt (continued):

- (ii) On January 27, 2014, Chartwell entered into a U.S. Credit Facility expiring on December 31, 2015. The U.S. Credit Facility was cancelled in June 2015.

## 11. Convertible debentures:

Chartwell has elected to designate convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. 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 price of the 5.7% convertible debentures at December 31, 2015 was \$119.95 (2014 - \$112) per debenture.

Chartwell has the following series of convertible debentures outstanding:

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	2015	2014
5.7% convertible debentures:		
Principal	\$ 134,851	\$ 135,000
Fair value	161,754	151,200

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The 5.7% convertible debentures bear interest at an annual rate of 5.7%, payable semi-annually in arrears on March 31 and September 30 in each year, and mature on March 31, 2018. Each 5.7% convertible debenture is convertible into freely tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018, and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.7% convertible debentures, at a conversion price of \$11.00 per Trust Unit. Holders converting their 5.7% convertible debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.7% convertible debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on Chartwell Units. In the event Chartwell has suspended regular distributions, then the 5.7% convertible debentures holders, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last payment date prior to the date of conversion.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 11. Convertible debentures (continued):

Prior to March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price, as defined in Chartwell Indenture, is not less than 125% of the conversion price. On or after March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Subject to regulatory approval and provided no event of default has occurred, Chartwell may, at its option, elect to satisfy its obligation to pay the principal amount of the 5.7% convertible debentures on redemption or maturity through, in whole or in part, the issuance of freely tradable Trust Units. The number of Trust Units to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the volume-weighted average trading price, as defined in the indenture. In addition, subject to regulatory approval and provided no event of default has occurred, Trust Units may be issued with the proceeds used by the 5.7% convertible debentures Trustee to satisfy the obligations to pay interest on the 5.7% convertible debentures.

## 12. Accounts payable and other liabilities:

	Note	2015	2014
Accounts payable and accrued liabilities		\$ 88,679	\$ 95,413
Resident deposits		2,846	2,662
Deferred revenue		528	9,614
Deferred Trust Units	(a)	10,501	8,269
Restricted Trust Units	(b)	3,118	1,406
LTIP option component	15(b)	8,364	6,857
		\$ 114,036	\$ 124,221

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

### (a) Deferred Unit Plan:

Chartwell provides a Deferred Unit Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of Deferred Trust Units. Chartwell matches, on a one-on-one basis, the number of Trust Units elected to be received by directors. The number awarded is based on the fair market value of Chartwell Units, as defined in the plan, on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred Trust Units issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. Deferred Trust Units cannot be distributed to the directors until after they retire from the board.

As described in note 2(i)(ii), this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the consolidated balance sheets. Deferred Trust Unit values are initially calculated based on the grant date fair value. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The liability is remeasured to fair value at each reporting date until the liability is settled. The liability is released to equity after retirement of the director. The market ask price of Trust Units as at December 31, 2015 was \$12.76 (2014 - \$11.95).

The following table summarizes the Deferred Trust Unit activity:

	Units outstanding	Amount
Balance, December 31, 2013	607,986	\$ 6,080
Units granted	93,955	1,032
Deferred Trust Units exchange for Trust Units on vesting	(40,942)	(431)
Change in fair value and distributions	31,050	1,588
Balance, December 31, 2014	692,049	8,269
Units granted	97,203	1,179
Change in fair value and distributions	33,914	1,053
Balance, December 31, 2015	823,166	\$ 10,501



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

The non-cash compensation expense attributable to the Deferred Trust Unit Plan of \$1,179 for the year ended December 31, 2015, (2014 - \$1,034), is included in general, administrative and trust expenses.

### (b) Restricted Unit Plan:

Under the terms of the Restricted Unit Plan, qualified employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash. The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. Restricted Units are recognized as compensation expense over the service period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is remeasured to fair value at each reporting date until the liability is settled. The Restricted Unit Plan is payable on vesting to certain participants, based on the extent to which Chartwell has achieved certain adjusted funds from operations targets over a three-year period.

During the year ended December 31, 2015, 198,894 notional Trust Units were issued (2014 - 194,141), 20,583 notional Trust units were cancelled (2014 - 27,289), 19,897 notional Trust units were issued related to reinvested distributions (2014 - 15,935), and 34,252 notional Trust units vested and were paid out (2014 - 81,947). At December 31, 2015, 433,774 notional Trust Units remained outstanding (2014 - 269,818).

The compensation expense attributable to the Restricted Trust Unit Plan of \$2,062 for the year ended December 31, 2015, (2014 - \$1,648), is included in general, administrative and trust expenses.

## 13. Discontinued operations:

On June 30, 2015, Chartwell completed the sale of 100% of its shares in CSH Master Care USA Inc. (the "U.S. Subsidiary"), through a series of transactions, to a newly-formed joint venture between HCP, Inc. ("HCP") and Brookdale Senior Living Inc. ("Brookdale").

The U.S. Subsidiary wholly owned Chartwell's entire U.S. portfolio, comprising 5,022 suites in 35 communities (the "U.S. Portfolio").

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 13. Discontinued operations (continued):

The gross sale price was U.S. \$847,449 (\$1,058,464). The related debt of U.S. \$477,939 (\$596,946) was settled on sale.

Chartwell recorded a gain on the sale of the U.S. Portfolio of \$432,241, net of transaction costs of \$13,528.

As a result of the sale of the U.S. Portfolio, financial results related to the year ended December 31, 2014, have been restated for the classification of the results of the U.S. Portfolio as discontinued operations.

The following is a summary of the results of discontinued operations:

	2015	2014
Resident revenue	\$ 114,110	\$ 213,428
Direct operating costs	(80,819)	(146,146)
Finance costs	(16,939)	(35,113)
Other income (expense)	(1,371)	997
Gain on disposal of PP&E	–	34,312
Depreciation of PP&E	(13,870)	(47,127)
Amortization of intangible assets	(255)	(909)
Changes in fair values of financial instruments, foreign exchange and adjustments on mortgages	(26,827)	(768)
Gain on disposal of discontinued operations	432,241	–
Income before income taxes	406,270	18,674
Current income tax expense (note 23)	(56,176)	(923)
<b>Net income from discontinued operations</b>	<b>\$ 350,094</b>	<b>\$ 17,751</b>
Cash flows from discontinued operations:		
Net cash used in operating activities	\$ 14,804	\$ (235)
Net cash used in financing activities	(5,213)	(38,910)
Net cash provided by investing activities	427,045	38,374
Foreign exchange loss on cash	(7)	(2,026)
<b>Effect on cash flows</b>	<b>\$ 436,629</b>	<b>\$ (2,797)</b>

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 14. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability. Chartwell has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. As inputs are unadjusted, quoted prices of identical instruments in active markets, Class B Units are considered Level 2 in the fair value hierarchy.

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. These distributions are included in finance costs in the consolidated statements of comprehensive income (loss).

	Units outstanding	Amount
Balance, December 31, 2013	1,658,312	\$ 16,583
Exchange of Class B Units into Trust Units	(16,989)	(178)
Change in fair value	–	3,209
Balance, December 31, 2014	1,641,323	19,614
Issuance of Class B Units (note 3)	1,187,170	15,136
Exchange of Class B Units into Trust Units	(1,187,170)	(14,590)
Change in fair value	–	783
Balance, December 31, 2015	1,641,323	\$ 20,943

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 15. Unitholders' equity and LTIP:

### (a) Trust Units:

Chartwell is authorized to issue unlimited Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by holders. Upon receipt of redemption notice by Chartwell, all rights to and under Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

- (i) 90% of the "market price" of the Units on the principal market on which the units are quoted for trading during the 10-trading-day period ending immediately prior to the date on which the units were surrendered for redemption; and
- (ii) 100% of the "closing market price" on the principal market on which the units are listed for trading on the redemption date.

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed \$50 unless waived at the discretion of Trustees and satisfied by way of cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds \$50 in any given month, such excess will be satisfied by way of a distribution in species of assets held by Chartwell.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

The following Trust Units are issued and outstanding:

	Number of Trust Units	Amount
Balance, December 31, 2013	171,643,982	\$ 1,724,564
Trust Units issued under DRIP	1,670,021	17,408
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	114,058	1,205
Balance, December 31, 2014	173,485,992	1,743,786
Trust Units issued under DRIP	1,595,951	18,574
Trust Units issued on conversion of debt	13,542	149
Trust Units issued in exchange of Class B Units	1,187,170	14,590
Trust Units released on settlement of LTIP receivable	118,546	1,397
Balance, December 31, 2015	176,401,201	\$ 1,778,496

### (b) LTIP:

LTIP fair value is measured using the Monte Carlo simulation method. The following table summarizes the assumptions used to determine the fair value of the LTIP option component:

	2015	2014
Expected volatility	15.32% - 20.32%	10.68% - 15.68%
Risk-free rate	1.78% - 2.41%	2.32% - 2.69%
Distribution yield	5.10% - 5.94%	5.30%

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for 20 trading days preceding the date of issuance. Participants are required to pay interest on the unpaid balance of the purchase price at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time Trust Units under the LTIP are issued. All distributions on Trust Units under the LTIP are applied as payments, first of interest and then of balance toward reduction of the principal of the LTIP receivable. Trust Units issued under the LTIP are held as security for the outstanding LTIP receivable. Participants may prepay the principal at their discretion and receive the Trust Units. If a participant elects to withdraw from the plan without paying the balance of the LTIP receivable in full, Chartwell may elect to sell Trust Units issued under the LTIP in satisfaction of the outstanding LTIP receivable. Chartwell's recourse is limited to Trust Units it holds as security. 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 awards issued before April 1, 2014. Subsequent LTIP awards are limited to senior executives, continue to have 10-year terms and vest immediately.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,945,365 were available to be issued at December 31, 2015.

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
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	(252,279)	(3,382)
Trust Units released on settlement of LTIP receivable	(114,058)	(1,205)
Balance, December 31, 2014	1,640,764	17,873
Trust Units issued under LTIP	71,734	856
Trust Units surrendered for cancellation under LTIP	(40,318)	(443)
Trust Units released on settlement of LTIP receivable	(118,546)	(1,397)
Balance, December 31, 2015	1,553,634	\$ 16,889

The compensation expense attributable to the LTIP of \$324 for the year ended December 31, 2015 (2014 - \$507) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities. The LTIP receivable is also recognized in unitholders' equity. Distributions received on Trust Units issued under the LTIP are charged to unitholders' equity while interest received on LTIP receivable is credited to distributions.

### (c) DRIP:

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## **16. Segmented information:**

Chartwell monitors and operates its Canadian Retirement and Canadian Long Term Care 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 consolidated financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 16. Segmented information (continued):

2015	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations (note 13)	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing Operations								
Revenue:								
Resident Management and other fees	\$ 530,520	\$ 219,607	\$ -	\$ 750,127	\$ -	\$ 750,127	\$ (106,213)	\$ 643,914
Lease revenue from joint ventures	-	-	-	-	7,815	7,815	-	7,815
Loan interest	-	-	-	-	-	-	33,000	33,000
	-	-	-	-	1,142	1,142	-	1,142
	530,520	219,607	-	750,127	8,957	759,084	(73,213)	685,871
Expenses:								
Direct operating	338,101	191,913	-	530,014	-	530,014	(66,479)	463,535
General, administrative and trust	-	-	-	-	30,771	30,771	-	30,771
	338,101	191,913	-	530,014	30,771	560,785	(66,479)	494,306
Income (loss) before the undernoted <sup>(1)</sup>	192,419	27,694	-	220,113	(21,814)	198,299	(6,734)	191,565
Finance costs:								
Contractual interest	(51,804)	(11,125)	-	(62,929)	(9,959)	(72,888)	1,334	(71,554)
Other	(228)	1,008	-	780	(1,357)	(577)	54	(523)
Other income (expense):								
Interest and other income	129	3,268	-	3,397	187	3,584	(98)	3,486
Other	(1,303)	(269)	-	(1,572)	(991)	(2,563)	1,746	(817)
Depreciation and amortization	(107,946)	(8,758)	-	(116,704)	(1,557)	(118,261)	3,844	(114,417)
Share of net loss from joint ventures	-	-	-	-	-	-	(186)	(186)
Changes in fair values of financial instruments and foreign exchange gains (losses)	(710)	-	-	(710)	(1,621)	(2,331)	40	(2,291)
Income (loss) before income taxes	30,557	11,818	-	42,375	(37,112)	5,263	-	5,263
Income tax (expense) benefit	8,216	-	-	8,216	(1,340)	6,876	-	6,876
Income (loss) from continuing operations	38,773	11,818	-	50,591	(38,452)	12,139	-	12,139
Net income (loss) from discontinued operations net of income taxes	-	-	350,094	350,094	-	350,094	-	350,094
<b>Net income (loss)</b>	<b>\$ 38,773</b>	<b>\$ 11,818</b>	<b>\$ 350,094</b>	<b>\$ 400,685</b>	<b>\$ (38,452)</b>	<b>\$ 362,233</b>	<b>\$ -</b>	<b>\$ 362,233</b>
Expenditures for non-current assets:								
Acquisition of properties	\$ 515,916	\$ -	\$ -	\$ 515,916	\$ -	\$ 515,916	\$ 40,075	\$ 555,991
Capital additions	63,578	7,589	11,417	82,584	3,840	86,424	(1,786)	84,638

<sup>(1)</sup> Refers to income before finance costs, other income (expense), depreciation and amortization, changes in fair values of financial instruments and foreign exchange gains (losses), share of net income from joint ventures, income tax (expense) benefit and discontinued operations.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 16. Segmented information (continued):

2014	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations (note 13)	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing Operations								
Revenue:								
Resident Management and other fees	\$ 497,643	\$ 216,677	\$ -	\$ 714,320	\$ -	\$ 714,320	\$ (103,055)	\$ 611,265
Lease revenue from joint ventures	-	-	-	-	7,483	7,483	-	7,483
Interest on loans receivable	-	-	-	-	-	-	32,636	32,636
	-	-	-	-	461	461	-	461
	497,643	216,677	-	714,320	7,944	722,264	(70,419)	651,845
Expenses:								
Direct operating	323,091	187,877	-	510,968	-	510,968	(64,615)	446,353
General, administrative and trust	-	-	-	-	31,582	31,582	-	31,582
	323,091	187,877	-	510,968	31,582	542,550	(64,615)	477,935
Income (loss) before the undernoted <sup>(1)</sup>	174,552	28,800	-	203,352	(23,638)	179,714	(5,804)	173,910
Finance costs:								
Contractual interest	(56,186)	(12,167)	-	(68,353)	(9,384)	(77,737)	1,495	(76,242)
Other	(72)	981	-	909	(1,080)	(171)	29	(142)
Other income (expense):								
Interest and other income	169	3,572	-	3,741	1,161	4,902	(128)	4,774
Other	5,713	(263)	-	5,450	45	5,495	78	5,573
Depreciation and amortization	(111,409)	(10,772)	-	(122,181)	(2,618)	(124,799)	2,972	(121,827)
Share of net income from joint ventures	-	-	-	-	-	-	1,319	1,319
Changes in fair values of financial instruments and foreign exchange gains (losses)	(88)	-	-	(88)	(15,568)	(15,656)	39	(15,617)
Income (loss) before income taxes	12,679	10,151	-	22,830	(51,082)	(28,252)	-	(28,252)
Income tax (expense) benefit	4	-	-	4	2,218	2,222	-	2,222
Income (loss) from continuing operations	12,683	10,151	-	22,834	(48,864)	(26,030)	-	(26,030)
Net income (loss) from discontinued operations net of income taxes	-	-	17,751	17,751	-	17,751	-	17,751
<b>Net income (loss)</b>	<b>\$ 12,683</b>	<b>\$ 10,151</b>	<b>\$ 17,751</b>	<b>\$ 40,585</b>	<b>\$ (48,864)</b>	<b>\$ (8,279)</b>	<b>\$ -</b>	<b>\$ (8,279)</b>
Expenditures for non-current assets:								
Acquisition of properties	\$ 97,128	\$ -	\$ -	\$ 97,128	\$ -	\$ 97,128	\$ -	\$ 97,128
Capital additions	58,120	7,947	18,172	84,239	3,227	87,466	(1,296)	86,170

<sup>(1)</sup> Refers to income before finance costs, other income (expense), depreciation and amortization, changes in fair values of financial instruments and foreign exchange gains (losses), share of net income from joint ventures, income tax (expense) benefit and discontinued operations.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 16. Segmented information (continued):

2015	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,379,886	\$ 277,516	\$ –	\$ 2,657,402	\$ 23,515	\$ 2,680,917	\$ (81,528)	\$ 2,599,389
Total liabilities	\$ 1,487,216	\$ 210,169	\$ –	\$ 1,697,385	\$ 254,012	\$ 1,951,397	\$ (81,528)	\$ 1,869,869

2014	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 1,832,749	\$ 283,656	\$ 597,438	\$ 2,713,843	\$ 20,484	\$ 2,734,327	\$ (29,078)	\$ 2,705,249
Total liabilities	\$ 1,291,652	\$ 220,117	\$ 542,218	\$ 2,053,987	\$ 246,742	\$ 2,300,729	\$ (29,078)	\$ 2,271,651

## 17. Financial instruments and financial risk management:

### (a) Carrying values and fair values of financial instruments:

The carrying amounts and fair values of financial instruments, not otherwise disclosed in these consolidated financial statements, as shown in the consolidated balance sheets, are shown in the table below. The table below excludes cash, trade and other receivables, accounts payable and other liabilities, and distributions payable, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value.

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial assets recorded at amortized cost:				
Loans receivable	\$ 15,764	\$ 15,764	\$ 9,901	\$ 9,901
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	1,531,358	1,610,416	1,917,076	2,017,753
Credit Facility	32,000	32,000	45,500	45,500

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

Fair value represents management's estimates of the fair 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 following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2015, the mortgages payable were discounted using rates between 1.63% and 4.30% (2014 - 2.01% and 4.58%). 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.

### (b) Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for unitholder returns. Chartwell is exposed to financial instrument risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine and other loans, and risks of changes in foreign exchange rates.

The Board of Trustees has overall responsibility for the establishment and oversight of Chartwell's risk management framework. Management is responsible for developing and monitoring Chartwell's risk management policies and reports regularly to the Board of Trustees on its activities.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2014.

These financial instrument risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine and other loans may experience financial difficulty and be unable to fulfill their contractual obligations. Chartwell has three significant categories of receivables: resident receivables, funding receivable from various provincial governments and loans receivable.

Chartwell regularly monitors the credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss.

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of Chartwell's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

In the event that Chartwell's borrowers face financial difficulty and are not able to meet their commitments to their lenders, including Chartwell, Chartwell could suffer a loss of either interest or principal or both on the loans it has advanced, since other lenders will rank ahead of Chartwell in any recovery. To decrease the credit risk exposure the loans are secured by charges of the borrowers' interests in development projects, and often by corporate or personal guarantees.

Generally, the carrying amount on the consolidated balance sheets of Chartwell's financial assets exposed to credit risk, net of applicable loss allowances, represents Chartwell's maximum exposure to credit risk. Chartwell limits its exposure to credit risk related to derivatives by transactions with counterparties that are stable and of high credit quality.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible. At December 31, 2015, outstanding residents receivables were \$1,311 (2014 - \$4,053), net of an impairment reserve of \$866 (2014 - \$1,370).

### (ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

Chartwell's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to unitholders, and possible property development and acquisition funding requirements.

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the Credit Facility, raising funds by refinancing existing mortgages, arranging new mortgage financing, issuing units, convertible debentures or selling properties. At December 31, 2015, Chartwell had \$3,002 in cash and \$163,572 available and undrawn on the Credit Facility (note 10(b)).

Chartwell holds licences related to each of its long term care communities and in certain cases, retirement communities. Holders of these licences receive funding from the relevant provincial government. During the year ended December 31, 2015, Chartwell received \$193,547 (2014 - \$192,273) in funding in respect of these licences, which has been recorded as resident revenue, other income and capital funding receivable.

# CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2015 and 2014

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

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

On December 5, 2015, Chartwell entered into a large borrower agreement ("LBA") with CMHC. The LBA provides among other things, the cross-collateralization of mortgage loans for our largest CMHC insured lenders, and contains certain financial and operating covenants.

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

Chartwell's major contractual obligations as at December 31, 2015 are detailed in note 24.

### (iii) Market risk:

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as foreign exchange rates, interest rates and equity prices that will affect Chartwell's income or the value of its holdings of financial instruments.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating-rate debt on an ongoing basis and its fixed-rate debt upon renewal. At December 31, 2015, \$198,057 (2014 - \$186,877) of Chartwell's mortgages and loans payable bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long term debt to the extent possible on renewal. It may also enter into derivative financial instruments from time to time to mitigate interest rate risk. Generally, Chartwell fixes the term of long term debt within a range of 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate, long term debt over time.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

At December 31, 2015, Chartwell's interest-bearing financial instruments were:

	Carrying amount	
	2015	2014
Fixed-rate financial liabilities	\$ 1,500,711	\$ 1,915,444
Variable-rate financial liabilities	\$ 198,057	\$ 186,877

A change in interest rates at December 31, 2015 would not affect net income with respect to the fixed-rate instruments. Therefore, no sensitivity analysis is provided for the fixed-rate instruments.

An increase/decrease of 100 basis points in interest rates at December 31, 2015 for the variable-rate financial instruments would have increased/decreased the loss for the year by \$1,981 (on a pre-tax basis).

## 18. Capital structure financial policies:

Chartwell's primary objectives in managing capital are:

- to ensure that Chartwell has sufficient capital to execute on its strategic objectives, including targeted investments in maintenance and improvements of its property portfolio, development and acquisitions activities;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements while ensuring that Chartwell complies with certain financial and non-financial covenants included in loan agreements; and
- to provide growing distributions to unitholders.

In managing its capital structure, Chartwell takes into consideration various factors, including changes in economic conditions, growth of its business and risk characteristics of the underlying assets.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

Management defines capital as Chartwell's total unitholders' equity, Class B units and long term debt. Chartwell's long term debt primarily includes mortgages payable and convertible debentures.

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

In order to maintain or adjust the capital structure, Chartwell may issue new units, buy back units, issue new debt or issue new debt to replace existing debt with different characteristics, adjust the amount of distributions paid to unitholders or undertake other activities, as deemed appropriate under specific circumstances.

Chartwell's Declaration of Trust limits the amount of indebtedness that Chartwell can incur to 60% of adjusted gross book value ("GBV"), excluding convertible debentures, or 65% of GBV, including convertible debentures ("Indebtedness ratios").

GBV means, at any time, the consolidated book value of the assets of Chartwell, as shown on Chartwell's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of Master LP at any time, the appraised value thereof), adjusted for Chartwell's line-by-line share of its joint ventures, plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto, plus the difference between the GBV of assets under Canadian generally accepted accounting principles and IFRS at January 1, 2010, Chartwell's effective IFRS transition date, and the related costs in respect of completed property acquisitions that were expensed in the period incurred.

Debt includes any obligation for borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than deferred income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in the consolidated balance sheets, adjusted for Chartwell's line-by-line share of its joint ventures. Debt is determined on a consolidated basis for Chartwell and its consolidated subsidiaries.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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

The following are the Indebtedness ratios at December 31, 2015 and 2014:

	2015	2014	Increase (decrease)
Excluding convertible debentures	45.9%	51.9%	(6.0%)
Including convertible debentures	49.7%	55.4%	(5.7%)

Chartwell's strategy for capital management is driven by policies stated under the Declaration of Trust and external requirements from certain of its lenders. Under the terms of Chartwell's loan agreements with these lenders, Chartwell is required to meet certain financial and non-financial covenants. These covenants include: maintaining minimum equity, required debt service coverage ratios, indebtedness ratios, minimum liquidity, intended property use, limitations on the amount of cash distributions that can be paid to unitholders and other covenants. There have been no changes in Chartwell's capital management strategy during the year.

## 19. Personnel expenses:

The analysis of employee benefits expense for the year ended December 31, 2015 and 2014, included in the consolidated statements of comprehensive income (loss) under direct operating expenses and general, administrative and trust expenses, is as follows:

	2015	2014
Salaries and wages	\$ 336,987	\$ 326,161
Post-employment benefits (defined contribution plans)	4,960	4,697
Unit-based compensation	3,493	3,149
	\$ 345,440	\$ 334,007

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 20. Other income (expense):

	2015	2014
Reversal of previously recorded provisions for impairment of mezzanine loans (a)	\$ –	\$ 1,245
Gain on disposal of assets (b)	4,967	7,174
Gain recorded on remeasurement of previously held interest on acquisition (note 3)	10,452	435
Interest and other income	3,486	4,774
Other income	18,905	13,628
Property lease expense	(447)	(395)
Impairment of PP&E, net of reversals (c)	(3,755)	–
Transaction costs arising on acquisitions and dispositions	(12,034)	(2,886)
Other (expense)	(16,236)	(3,281)
Other income (expense)	\$ 2,669	\$ 10,347

(a) On March 31, 2014, a mezzanine loan borrower repaid its \$1,245 mezzanine loan to Chartwell. As a result, Chartwell recorded a reversal of previously recorded impairment provisions for mezzanine loan of \$1,245.

(b) Gain on disposal of assets:

On June 2, 2015, Chartwell sold a non-core property in Quebec, included in the Canadian Retirement Segment. The sale price was \$8,000 and was settled through the purchaser's assumption of a mortgage in amount of \$5,252 and a \$1,500 vendor take-back mortgage provided by Chartwell with the balance of the purchase price paid in cash. Chartwell recorded a gain on sale of this asset of \$3,321.

For the year ended December 31, 2015, Chartwell completed other disposals of assets and recorded a gain of \$1,646.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 20. Other expense (income) (continued):

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 purchaser with vendor take-back mortgages totalling \$6,000, with the balance of the purchase price, net of closing costs, was received in cash. Chartwell recorded a gain on sale of assets of \$351.

On July 2, 2014, Chartwell and its joint venture partner completed the previously announced sale of a 196-suite 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. Chartwell recorded a gain on sale of assets of \$5,775.

For the year ended December 31, 2014, Chartwell completed other disposals of assets and recorded a gain of \$1,048.

- (c) On November 11, 2015, Chartwell sold two non-core properties in Quebec, included in the Canadian Retirement Segment. The sale price was \$12,000 and was settled through the purchaser's assumption of a mortgage of \$11,467 and cash. As a result, previously recorded property impairment provisions of \$1,626 were reversed.

During 2015, Chartwell recorded impairment provisions of \$5,381 on four properties located in Quebec and Ontario.

## 21. Finance costs:

	2015	2014
Contractual mortgage interest expense	\$ 61,127	\$ 64,194
Interest expense on convertible debentures	7,690	7,695
Credit Facility and other interest expense	2,737	4,353
	71,554	76,242
Interest capitalized to properties under development	(240)	(239)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	(193)	(508)
Distributions on Class B Units recorded as interest expense	956	889
Total finance costs	\$ 72,077	\$ 76,384

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 22. Changes in fair values of financial instruments and foreign exchange losses:

	2015	2014
Changes in fair value of convertible debentures	\$ (10,703)	\$ (7,195)
Changes in fair value of interest rate swap	(669)	(47)
Foreign exchange gains (losses)	10,675	(1,747)
Changes in fair value of LTIP option component	(1,183)	(1,831)
Changes in fair value of Class B Units	(783)	(3,209)
Changes in fair value of Deferred Trust Units	(1,053)	(1,588)
Change in fair value of income guarantees	1,425	–
<b>Changes in fair values of financial instruments and foreign exchange losses</b>	<b>\$ (2,291)</b>	<b>\$ (15,617)</b>

## 23. Income taxes:

The income tax benefit - continuing operations in the consolidated statements of comprehensive income (loss) represents an effective tax rate different than the Canadian tax rate applicable to trusts on undistributed income of 49.53%. The differences for the years ended December 31 are as follows:

	2015	2014
Income (loss) before income taxes from continuing operations	\$ 5,263	\$ (28,252)
Income tax expense (recovery) at Canadian tax rate	\$ 2,607	\$ (13,993)
Non-deductible expenses	1,212	2,945
Income not subject to tax	(6,296)	(15,573)
Recovery of prior year SIFT tax	–	(2,218)
Tax benefits not recognized	9,838	22,342
Recognition of previously unrecognized tax benefits	(14,833)	(2,128)
Change in enacted tax rate	(5,074)	–
Effect of tax rates in corporate subsidiary	(191)	–
Non-deductible fair value changes	6,797	5,257
Other	(936)	1,146
<b>Income tax benefit - continuing operations</b>	<b>\$ (6,876)</b>	<b>\$ (2,222)</b>

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 23. Income taxes (continued):

Recognition of previously unrecognized tax benefits in the year ended December 31, 2015 includes \$8,216 resulting from the acquisition of a property accounted for as a business combination.

Deferred tax assets have not been recognized for the following:

	2015	2014
Deductible temporary differences	\$ 54,753	\$ 69,319
Non-capital and capital losses carried forward	21,378	16,788
	<u>\$ 76,131</u>	<u>\$ 86,107</u>

Chartwell has non-capital losses carried forward of \$13,130, which will expire between 2027 and 2029, and capital losses carried forward of \$8,248. The capital losses carried forward and deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

As a result of the sale of the U.S. subsidiary, Chartwell recorded a current tax expense of \$56,176 in discontinued operations. This current expense is primarily attributable to the U.S. taxes payable on the disposition of the shares of the U.S. subsidiary.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

## 24. Commitments and contingencies:

Chartwell's major contractual obligations as at December 31, 2015 are detailed in the following table:

	Note	Total	2016	2017	2018	2019	2020	Thereafter
Mortgages payable	10(a)	\$ 1,531,916	\$ 157,953	\$ 106,981	\$ 117,432	\$ 258,825	\$ 155,732	\$ 734,993
Accounts payable and other liabilities	12	114,036	114,036	—	—	—	—	—
Distributions payable		8,243	8,243	—	—	—	—	—
Convertible debentures	11	134,851	—	—	134,851	—	—	—
Credit Facility	10(b)	32,000	32,000	—	—	—	—	—
Purchase obligations	24(b)	8,707	8,707	—	—	—	—	—
Operating leases	24(a)(i)	7,633	1,217	1,170	1,170	1,159	1,129	1,788
Land leases	24(a)(ii)	14,480	395	395	395	395	395	12,505
<b>Total contractual obligations</b>		<b>\$ 1,851,866</b>	<b>\$ 322,551</b>	<b>\$ 108,546</b>	<b>\$ 253,848</b>	<b>\$ 260,379</b>	<b>\$ 157,256</b>	<b>\$ 749,286</b>

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 24. Commitments and contingencies (continued):

### (a) Lease obligations:

#### (i) Operating leases:

Chartwell has operating leases on office space in Canada that expire on various dates up to July 31, 2022. In aggregate, annual payments on these leases vary from \$1,129 to \$1,217 over the remaining terms of the leases.

#### (ii) Land leases:

Chartwell has commitments related to three properties located on lands subject to long-term land leases. A land lease on a property in Alberta, Canada expires on July 17, 2061, and requires annual payments of \$126. A land lease on a property in Ontario expires on August 31, 2044, and requires annual payments of \$113 through to August 31, 2024, and \$136 for the remainder of the term. A land lease on another property in Ontario expires on May 31, 2048 with minimum lease payments of \$156, negotiated to market on May 31, 2018, and every 15-year anniversary thereafter.

For the above leases, legal title does not pass to Chartwell. Chartwell has determined that substantially all of the risks and rewards incidental to ownership are still with the lessor and, as such, these leases are operating leases.

### (b) Purchase obligations:

Chartwell has entered into various construction contracts related to various development and asset improvement projects. As at December 31, 2015, the remaining commitments under these contracts amounted to approximately \$207. In addition, Chartwell entered into an agreement to acquire vacant land for \$8,500. This transaction closed in January 2016.

Under Chartwell's agreements with Batimo, upon achievement of certain conditions, Batimo may require Chartwell to acquire an 85% interest in their development properties in which Chartwell participates as the operations manager and, in some cases, as the mezzanine lender, at 99% of Fair Market Value ("FMV"), as defined in the agreements ("Batimo Option"). Batimo Option is for a five year period commencing on opening of the related facility. Upon expiry of the Batimo Option Chartwell has a two year option to require Batimo to sell an 85% interest in the property at FMV, as defined in the agreements. At December 31, 2015, there are five projects with 1,170 suites that are subject to this arrangement.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 24. Commitments and contingencies (continued):

### (c) Letters of credit:

As at December 31, 2015, Chartwell was contingently liable for letters of credit in the amount of \$4,002 (2014 - \$4,869).

### (d) Guarantees:

As a result of the purchasers' assumption of certain mortgages on seven properties sold in 2014 and one property sold in 2015, Chartwell remains a guarantor of these mortgages. As at December 31, 2015, outstanding balances on these loans were \$12,787. The purchasers have indemnified Chartwell with respect to these guarantees.

Chartwell, with its partners, has jointly and severally guaranteed loans on two properties, which are 50% owned by Chartwell, and three properties, which are 85% owned by Chartwell, to a maximum amount of \$73,638. As at December 31, 2015, outstanding balances on these loans were \$67,294.

### (e) Litigation and claims:

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

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2015 and 2014

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## 25. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Officers' and directors' compensation	\$ 4,568	\$ 4,146
Post-employment benefits	63	61
Other long term benefits	949	796
Unit-based payments	193	317

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

## 26. Subsequent events:

On February 25, 2016, Chartwell announced a 2.0% increase in the monthly cash distributions from \$0.0459 per unit (\$0.5508 per unit on an annualized basis) to \$0.046818 per unit (\$0.561816 per unit on an annualized basis) effective for the March 31, 2016 distribution payable on April 15, 2016.