

Consolidated Financial Statements  
(In Canadian dollars)

**CHARTWELL SENIORS  
HOUSING REAL ESTATE  
INVESTMENT TRUST**

Years ended December 31, 2010 and 2009



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Seniors Housing Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Chartwell Seniors Housing Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations and comprehensive 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 Canadian generally accepted accounting principles, 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 Seniors Housing Real Estate Investment Trust as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

March 10, 2011  
Toronto, Canada

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

| December 31                             | 2010                | 2009                |
|---|---------------------|---------------------|
| <b>Assets</b>                           |                     |                     |
| Properties (note 3)                     | \$ 2,458,689        | \$ 2,250,246        |
| Mezzanine loans receivable (note 4)     | 20,803              | 55,323              |
| Limited life intangible assets (note 5) | 36,523              | 32,047              |
| Cash and cash equivalents               | 14,728              | 103,815             |
| Other assets (note 6)                   | 43,578              | 50,861              |
| Capital funding receivable (note 7)     | 63,865              | 43,824              |
| Licenses                                | 38,581              | 25,650              |
| Assets held for sale (note 8)           | –                   | 36,908              |
|   | <b>\$ 2,676,767</b> | <b>\$ 2,598,674</b> |

## Liabilities and Unitholders' Equity

|   |                     |                     |
|---|---------------------|---------------------|
| Liabilities:  |                     |                     |
| Mortgages payable (note 9(a))                             | \$ 1,732,438        | \$ 1,598,372        |
| Revolving operating credit facility (note 9(b))           | 51,000              | –                   |
| Convertible debentures (note 10)                          | 70,859              | 188,996             |
| Accounts payable and other liabilities (note 11)          | 87,735              | 80,890              |
| Deferred consideration on business combinations (note 12) | 7,512               | 12,674              |
| Distributions payable                                     | 6,505               | 5,857               |
| Future income tax liabilities (note 21)                   | 25,310              | 18,167              |
| Liabilities held for sale (note 8)                        | –                   | 28,304              |
|   | <b>1,981,359</b>    | <b>1,933,260</b>    |
| Non-controlling interest (note 13)                        | 5,429               | 7,813               |
| Unitholders' equity                                       | 689,979             | 657,601             |
| Commitments and contingencies (notes 4 and 19)            |                     |                     |
| Guarantees (note 24)                                      |                     |                     |
| Subsequent events (notes 4 and 25)                        |                     |                     |
|   | <b>\$ 2,676,767</b> | <b>\$ 2,598,674</b> |

See accompanying Notes to Consolidated Financial Statements.

Approved by the Trustees:

"Charles Moses" \_\_\_\_\_ Trustee

"Sidney Robinson" \_\_\_\_\_ Trustee

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations and Comprehensive Loss

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

| Years ended December 31  | 2010               | 2009               |
|--|--------------------|--------------------|
| <b>Revenue:</b>  |                    |                    |
| Resident   | \$ 701,678         | \$ 646,806         |
| Management and other fees (note 16)  | 4,675              | 7,347              |
| Mezzanine loan interest (notes 16 and 18)  | 5,419              | 8,056              |
| Bank interest and other  | 4,540              | 3,236              |
| Below-market lease amortization  | 732                | 1,101              |
|  | <u>717,044</u>     | <u>666,546</u>     |
| <b>Expenses:</b>   |                    |                    |
| Direct operating   | 497,203            | 458,014            |
| General, administrative and trust  | 20,577             | 21,008             |
|  | <u>517,780</u>     | <u>479,022</u>     |
|  | 199,264            | 187,524            |
| Interest expense   | 110,024            | 107,948            |
| Property lease expense   | 2,452              | 2,598              |
|  | <u>112,476</u>     | <u>110,546</u>     |
|  | 86,788             | 76,978             |
| Realized foreign exchange loss (gain) and realized loss (gain) on derivative financial instruments                                 | 58                 | (3,113)            |
| Unrealized loss on derivative financial instruments and unrealized foreign exchange loss   | 3,736              | 10,074             |
| Depreciation of properties   | 79,642             | 74,253             |
| Amortization of limited life intangible assets   | 17,692             | 36,977             |
| Accelerated accretion and amortization of financing costs on redemption of convertible debentures (note 10)                        | 2,183              | -                  |
| Write-down in the carrying value of assets (note 8)  | 4,100              | -                  |
| Provision for impairment of mezzanine loans and accounts receivable (note 4)   | -                  | 30,684             |
|  | <u>107,411</u>     | <u>148,875</u>     |
| Loss before income taxes   | (20,623)           | (71,897)           |
| <b>Income taxes (recovery) (note 21):</b>  |                    |                    |
| Current  | 281                | 85                 |
| Future   | 6,464              | (9,753)            |
|  | <u>6,745</u>       | <u>(9,668)</u>     |
| Loss before non-controlling interest   | (27,368)           | (62,229)           |
| Non-controlling interest (note 13)   | 380                | 1,228              |
| Loss from continuing operations  | (26,988)           | (61,001)           |
| Income (loss) from discontinued operations (note 8)  | 651                | (10,244)           |
| Loss for the year  | (26,337)           | (71,245)           |
| <b>Other comprehensive income (loss):</b>  |                    |                    |
| Unrealized foreign currency loss on the translation of self-sustaining foreign operations  | (4,777)            | (18,123)           |
| Net change in fair value of derivatives designated as cash flow hedges (net of future income taxes of nil; 2009 - \$147) (note 22) | 81                 | 490                |
| Non-controlling interest   | 65                 | 352                |
|  | <u>(4,631)</u>     | <u>(17,281)</u>    |
| Comprehensive loss   | <u>\$ (30,968)</u> | <u>\$ (88,526)</u> |
| <b>Income (loss) per unit (note 15):</b>   |                    |                    |
| Basic and diluted - continuing operations  | \$ (0.21)          | \$ (0.60)          |
| Basic and diluted - discontinued operations  | 0.01               | (0.10)             |

See accompanying Notes to Consolidated Financial Statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Unitholders' Equity

(In thousands of Canadian dollars)

| Year ended December 31, 2010   | Trust Units issued, net<br>(note 14) | Trust Units issued under LTIP<br>(note 14) | LTIP receivable<br>(note 14) | Losses              | Accumulated other comprehensive loss | Distributions       | Convertible debentures/ other equity components | Total             |
|--|--------------------------------------|--|------------------------------|---------------------|--------------------------------------|---------------------|---|-------------------|
| Unitholders' equity, January 1, 2010   | \$ 1,307,016                         | \$ 31,333                                  | \$ (23,460)                  | \$ (281,237)        | \$ (13,866)                          | \$ (380,494)        | \$ 18,309                                       | \$ 657,601        |
| Loss for the year  | —                                    | —  | —                            | (26,337)            | —                                    | —                   | —   | (26,337)          |
| Other comprehensive loss   | —                                    | —  | —                            | —                   | (4,631)                              | —                   | —   | (4,631)           |
| Distributions to Unitholders   | —                                    | —  | —                            | —                   | —                                    | (71,144)            | —   | (71,144)          |
| Issuance of Trust Units pursuant to public offering  | 124,217                              | —  | —                            | —                   | —                                    | —                   | 1,594   | 125,811           |
| Units issued under the deferred unit plan  | —                                    | —  | —                            | —                   | —                                    | —                   | 719   | 719               |
| Issuance of Trust Units under the Distribution Reinvestment Plan ("DRIP")                            | 4,795                                | —  | —                            | —                   | —                                    | —                   | —   | 4,795             |
| Trust Units issued on exchange of Class B Units of Chartwell Master Care LP                          | 959                                  | —  | —                            | —                   | —                                    | —                   | —   | 959               |
| Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury | 1,694                                | (1,998)                                    | 1,373                        | —                   | —                                    | —                   | 83  | 1,152             |
| Interest on instalment loan receivable   | —                                    | —  | (181)                        | —                   | —                                    | —                   | —   | (181)             |
| Distributions applied against instalment loan receivable   | —                                    | —  | 1,235                        | —                   | —                                    | —                   | —   | 1,235             |
| <b>Unitholders' equity, December 31, 2010</b>  | <b>\$ 1,438,681</b>                  | <b>\$ 29,335</b>                           | <b>\$ (21,033)</b>           | <b>\$ (307,574)</b> | <b>\$ (18,497)</b>                   | <b>\$ (451,638)</b> | <b>\$ 20,705</b>                                | <b>\$ 689,979</b> |

| Year ended December 31, 2009   | Trust Units issued, net<br>(note 14) | Trust Units issued under LTIP<br>(note 14) | LTIP receivable<br>(note 14) | Losses              | Accumulated other comprehensive income (loss) | Distributions       | Convertible debentures/ other equity components | Total             |
|--|--------------------------------------|--|------------------------------|---------------------|---|---------------------|---|-------------------|
| Unitholders' equity, January 1, 2009   | \$ 1,137,031                         | \$ 34,099                                  | \$ (26,485)                  | \$ (209,992)        | \$ 3,415                                      | \$ (312,783)        | \$ 15,073                                       | \$ 640,358        |
| Loss for the year  | —                                    | —  | —                            | (71,245)            | —   | —                   | —   | (71,245)          |
| Other comprehensive loss   | —                                    | —  | —                            | —                   | (17,281)                                      | —                   | —   | (17,281)          |
| Distributions to Unitholders   | —                                    | —  | —                            | —                   | —   | (67,711)            | —   | (67,711)          |
| Issuance of Trust Units pursuant to public offering  | 158,746                              | —  | —                            | —                   | —   | —                   | 1,922   | 160,668           |
| Units issued under the deferred unit plan  | —                                    | —  | —                            | —                   | —   | —                   | 644   | 644               |
| Issuance of Trust Units under the Distribution Reinvestment Plan ("DRIP")                            | 5,074                                | —  | —                            | —                   | —   | —                   | —   | 5,074             |
| Trust Units issued on exchange of Class B Units of Chartwell Master Care LP                          | 4,965                                | —  | —                            | —                   | —   | —                   | —   | 4,965             |
| Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of units transferred to Treasury | 1,200                                | (2,766)                                    | 2,079                        | —                   | —   | —                   | 670   | 1,183             |
| Interest on instalment loan receivable   | —                                    | —  | (825)                        | —                   | —   | —                   | —   | (825)             |
| Distributions applied against instalment loan receivable   | —                                    | —  | 1,771                        | —                   | —   | —                   | —   | 1,771             |
| <b>Unitholders' equity, December 31, 2009</b>  | <b>\$ 1,307,016</b>                  | <b>\$ 31,333</b>                           | <b>\$ (23,460)</b>           | <b>\$ (281,237)</b> | <b>\$ (13,866)</b>                            | <b>\$ (380,494)</b> | <b>\$ 18,309</b>                                | <b>\$ 657,601</b> |

See accompanying Notes to Consolidated Financial Statements.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

| Years ended December 31   | 2010        | 2009        |
|---|-------------|-------------|
| Cash provided by (used in):   |             |             |
| Operating activities:   |             |             |
| Loss for the year   | \$ (26,337) | \$ (71,245) |
| Items not affecting cash:   |             |             |
| Depreciation and amortization   | 98,120      | 116,944     |
| Gain on sale of assets (note 8)   | (4,704)     | –           |
| Below-market lease amortization   | (732)       | (1,213)     |
| Adjustment to record lease expense on a straight-line basis over the lease term                             | –           | 5,058       |
| Non-cash compensation expense   | 1,193       | 1,087       |
| Unrealized loss on derivative financial instruments and unrealized foreign exchange loss                    | 3,736       | 10,074      |
| Non-controlling interest  | (371)       | (1,447)     |
| Amortization of financing expenses  | 5,847       | 6,168       |
| Accretion of convertible debenture liability  | 3,200       | 3,021       |
| Accelerated accretion and amortization of financing costs on redemption of convertible debentures (note 10) | 2,183       | –           |
| Amortization of debt discounts  | 750         | 863         |
| Amortization of mezzanine placement fees  | (901)       | (732)       |
| Amortization of legal costs integral to mezzanine lending activities  | 52          | 538         |
| Write-down in the carrying value of assets (note 8)   | 8,600       | –           |
| Provision for impairment of mezzanine loans and accounts receivable (note 4)                                | –           | 30,684      |
| Future income taxes   | 6,464       | (9,753)     |
| Change in non-cash operating items (note 20)  | (663)       | (25,237)    |
|   | 96,437      | 64,810      |
| Financing activities:   |             |             |
| Proceeds from mortgage financing  | 16,380      | 47,774      |
| Proceeds from (repayment of) loans payable and revolving operating credit facility                          | 51,000      | (8,000)     |
| Mortgage principal repayments   | (112,093)   | (58,172)    |
| Financing costs   | (3,284)     | (5,685)     |
| Trust Units issued pursuant to:   |             |             |
| Public offerings  | 130,174     | 166,819     |
| Issue costs   | (5,957)     | (8,073)     |
| Redemption of non-voting preferred interests of CSH Master Care LLC   | –           | (260)       |
| Redemption of convertible debentures  | (124,925)   | –           |
| Distributions paid  | (64,636)    | (61,986)    |
| Distributions paid to non-controlling interest Unitholders  | (1,000)     | (1,483)     |
| Deposits received under LTIP and repayment of LTIP receivable   | 968         | 700         |
|   | (113,373)   | 71,634      |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)

(In thousands of Canadian dollars)

| Years ended December 31                                       | 2010      | 2009       |
|---|-----------|------------|
| Investing activities:   |           |            |
| Acquisition of assets, net of debt assumed (note 2)           | (53,078)  | (3,195)    |
| Payment of deferred consideration on<br>business combinations | (5,583)   | (9,721)    |
| Additions to properties                                       | (42,043)  | (39,870)   |
| Proceeds from disposal of properties (note 8)                 | 6,488     | –          |
| Amounts received under income guarantees                      | 133       | 554        |
| Mezzanine loans repayments                                    | 14,440    | 8,060      |
| Restricted cash and deposits in escrow                        | 1,726     | 3,140      |
| Proceeds from capital funding receivables (note 7)            | 3,013     | 2,177      |
|   | (74,904)  | (38,855)   |
| Foreign exchange loss on U.S. dollar-denominated cash         | (375)     | (1,176)    |
| Increase (decrease) in cash and cash equivalents              | (92,215)  | 96,413     |
| Cash and cash equivalents, beginning of year:                 |           |            |
| Continuing operations   | 103,815   | 3,146      |
| Discontinued operations                                       | 3,128     | 7,384      |
|   | 106,943   | 10,530     |
| Cash and cash equivalents, end of year                        | \$ 14,728 | \$ 106,943 |
| Represented by:   |           |            |
| Continuing operations   | \$ 14,728 | \$ 103,815 |
| Discontinued operations (note 8)                              | –         | 3,128      |
|   | \$ 14,728 | \$ 106,943 |

Supplemental cash flow information (note 20)

See accompanying Notes to Consolidated Financial Statements.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Ontario and was created pursuant to the Declaration of Trust dated July 7, 2003, as amended ("Declaration of Trust"), when one Trust Unit was issued for cash. Chartwell began operations on November 14, 2003. Chartwell's main business is ownership, operations, and management of retirement and long-term care communities in Canada and the United States.

Chartwell owns 100% of the outstanding Trust Units and Series 1 Trust Notes of CSH Trust, an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% 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. Class B Units of Master LP are held by non-controlling investors.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of the Trust. Its activities are financed through equity contributed by CSH Trust, Class B Unitholders and third-party lenders, including mortgages.

The United States assets of Chartwell are also owned indirectly by Master LP, through its wholly-owned United States subsidiary corporation, CSH Master Care USA Inc.

Chartwell's Declaration of Trust, as amended, provides that distributions will be within the discretion of the Trustees. The Trustees will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint ventures. All intercompany transactions have been eliminated upon consolidation.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (b) Business combinations:

Upon the acquisition of properties, Chartwell allocates the purchase price to the fair value of assets and liabilities, including land, building, furniture, fixtures and equipment and intangibles, such as licenses, the value of the above- and below-market resident contracts, in-place resident contracts, the value of customer relationships, and others as applicable.

### (c) Properties:

Properties include land, buildings and furniture, fixtures and equipment and are recorded at cost less accumulated depreciation. An impairment loss on an income property is required to be recognized when the carrying amount of any individual property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of a property exceeds its fair value.

Properties under development and land held for development, included in properties, are carried at the lower of cost and estimated net realizable value. Cost includes initial acquisition costs, other direct costs, realty taxes, interest related to their financing and other operating costs less the amount of operating revenue during the development period. The development period ends once a property is designated as an operating property, which is the earlier of the attainment of break-even cash flow after debt service or 24 months after substantial completion of construction.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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|                                   |             |
|-----------------------------------|-------------|
| Buildings                         | 40 years    |
| Building improvements             | 10 years    |
| Furniture, fixtures and equipment | 3 - 5 years |

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# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (d) Goodwill and other intangibles:

Goodwill represented the cost of acquired net assets in excess of their fair values. Goodwill is not amortized, but tested for impairment annually, or more frequently, if events or changes in circumstances indicated the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value.

Intangible assets are recorded at cost and consist of third-party management contracts, resident contracts, above- and below-market resident contracts, customer relationships, other intangibles and licenses. Intangible assets with finite useful lives are amortized over their useful lives and are tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite lives are not amortized and are tested for impairment annually, or more frequently, if events or circumstances indicate that the assets might be impaired.

### (i) Management contracts and customer relationships:

Management contracts and customer relationships are amortized on a straight-line basis over the term of the contract or if no term is specified, over an estimated life not to exceed five years.

### (ii) Resident contracts:

The value associated with in-place resident contracts, which represents the avoided costs 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.

### (iii) Above- and below-market resident contracts:

The values of the above- and below-market resident contracts are amortized and recorded as either an increase (in the case of below-market resident contracts) or a decrease (in the case of above-market resident contracts) to revenue over the expected term of the associated resident occupancy, estimated at an average of three years for retirement properties and two years for long-term care properties.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (iv) Payment-in-lieu-of-taxes agreement ("PILOT"):

PILOT agreements consist of arrangements with municipal governments in the United States which require the participant to incur certain expenses in lieu of municipal property taxes. They are amortized over the life of the specific agreements.

### (v) Other intangibles:

Other intangibles consist of the allocated cost of acquired operating leases of seniors housing properties. The allocated cost of the operating leases is amortized over the initial lease term of the underlying operating leases.

### (vi) Licenses:

Licenses for the operation of long-term care properties, when acquired, are recorded at cost. These licenses are considered to have an indefinite life and are not amortized.

### (e) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase and are stated at cost, which approximates fair value.

### (f) Revenue recognition:

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

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (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 "funding agencies") regulate amounts charged to residents of long-term care communities and, in certain cases retirement communities, a substantial portion of which are funded by provincial or regional programs. Such resident revenue is based exclusively on actual census and is recognized as services are rendered. Certain revenue is earned only when the Trust has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditures or levels of labour hours. Revenue is recognized when these criteria are achieved.

In certain cases, funding agencies provide 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 the Trust 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.

### (iii) Allowance for doubtful accounts:

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of residents to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the residents.

### (iv) Fee revenue:

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

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

- (b) Fee revenue from development services relates to building design and construction oversight. Development fee revenue is recognized on a project-specific basis using the percentage-of-completion method reflecting the level of effort expended to achieve predetermined project milestones. Prior to submission to the municipality for a building permit, no development fees are recognized. At submission, 65% of the estimated fees are recognized. The remaining portion of fees revenue is recognized on a straight-line basis over the estimated period the services are provided.
- (c) Fee revenue integral to Chartwell's lending activities is recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.
- (d) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash is received.

### (v) Gains/losses on properties:

Gains/losses on long-lived income properties are recognized when the Trust has transferred to the purchaser the significant risks and rewards of ownership of the property and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

### (vi) Multiple deliverables:

Chartwell earns revenue from contracts that include multiple deliverables. These multiple-element arrangements are assessed on a case-by-case basis to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. The revenue recognition policies described above are then applied to each unit of accounting.

Where such deliverables are not separable into individual units of accounting, they are considered to be integral to Chartwell's lending activities and are recognized as revenue over the estimated term of the related mezzanine loan, on an effective yield basis. Related costs are expensed over the same period using the effective interest rate method.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (g) Long-Term Incentive Plan:

Chartwell accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation expense is recognized, over the vesting period, for the fair value of the participants' rights under the LTIP.

Trust Units issued under the LTIP are treated as options for accounting purposes and are included in the diluted per unit calculations to the extent they are dilutive.

### (h) Deferred Unit Plan:

In 2009, Unitholders of Chartwell approved a Deferred Unit Plan for its independent trustees. The plan is described in note 14(d). Deferred Trust Units are granted to eligible trustees in respect to past performance and are recognized in compensation expense when granted with the corresponding offset to other equity components. Compensation costs are measured based on the fair market value of the Trust's Units on the date of the grant of the Deferred Trust Units. 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. No additional compensation cost is recorded for these additional Deferred Trust Units issued. Upon vesting, Deferred Trust Units will be converted to Trust Units.

Effective July 1, 2010, the Deferred Unit Plan was amended to provide that director fees elected to be received in Deferred Trust Units would be matched on a one-for-one basis by the Trust for subsequent issuances under the plan.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (i) Restricted Unit plan:

In 2008, Chartwell approved the adoption of a Restricted Unit plan which was implemented in 2009. Under the plan, qualified senior employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash. The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of the Trust Units, as defined by the plan, on the date distributions are paid. Such grants are based on an individual's performance as compared to goals set at the beginning of a given year and intended to supplement awards under the annual bonus plan. Restricted Units are recognized as compensation expense evenly over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is adjusted to fair market value based on the trading value of Trust Units at each reporting date.

### (j) Employee future benefits:

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis.

Chartwell accrues its obligations related to accumulated sick pay and post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in direct operating expenses in the current year.

### (k) Income taxes:

Chartwell currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to the enactment of laws relating to the federal income taxation of specified investment flow-through ("SIFT") trusts, as discussed below, income earned by Chartwell and distributed annually to Unitholders was not, and would not be, subject to taxation in Chartwell, but was taxed at the individual Unitholder level. For financial statement reporting purposes, the tax deductibility of Chartwell's distributions was treated as an exemption from taxation as Chartwell distributed and expected to continue distributing all of its taxable income to its Unitholders.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

Chartwell is a SIFT trust for Canadian income tax purposes and became subject to SIFT tax commencing in fiscal 2007. Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

Chartwell uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the year that includes the date of enactment or substantive enactment.

### (l) Foreign currency:

Financial statements of Chartwell's self-sustaining operations in the United States are translated into Canadian currency using the current rate method. Assets and liabilities are translated at the rate of exchange in effect as at the consolidated balance sheet dates. Revenue and expenses are translated at rates in effect on the dates on which such items are recognized in income during the year.

Exchange gains and losses arising from the translation of the financial statements of Chartwell's self-sustaining foreign operations are deferred and included in other comprehensive income (loss). When there is a reduction in Chartwell's net investment in a self-sustaining foreign operation, a proportionate amount of the accumulated other comprehensive income (loss) related to currency translation is included in the determination of loss for the year.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (m) Derivative financial instruments:

#### Interest rate derivatives:

Chartwell enters into interest rate swap arrangements in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Chartwell may designate its interest rate swap arrangements as hedges of the underlying interest. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swap arrangements.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the consolidated balance sheets and recognized in the consolidated statements of operations in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in loss for the year.

### (n) Convertible debentures:

Chartwell accounts for convertible debentures by valuing the holders' option to convert to units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (o) 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 the costs of both reported claims and claims incurred but not reported and is 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.

### (p) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. In determining the estimated construction period over which to recognize development fees, the estimated mezzanine loan term over which fee revenue for services considered integral to the Trust's lending activities is to be recognized, the fair value of assets and liabilities of businesses it acquires, the fair values of financial instruments, the expected gains and losses of variable interest entities ("VIEs"), the recoverability of mezzanine loans, the estimated useful lives and net recoverable amounts for properties, the fair value of reporting units and intangible assets not subject to amortization, as well as the reversal pattern of temporary differences related to future income tax, Chartwell relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity, foreign exchange and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

### (q) Future accounting changes:

#### International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. IFRS will replace Canadian GAAP effective January 1, 2011. The Trust's first annual IFRS consolidated financial statements will be for the year ended December 31, 2011 and will include the comparative period for the year ended December 31, 2010. Starting with the first quarter of 2011, the Trust will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010.

## 2. Acquisitions:

### (a) Acquisitions during the year ended December 31, 2010:

- (i) On March 9, 2010, pursuant to the Settlement Agreement with entities affiliated with Le Groupe Melior ("Melior"), Chartwell acquired, through foreclosure proceedings, three retirement properties with 598 suites and one parcel of vacant land from Melior. The value of the assets acquired were \$82,248, before closing costs. Chartwell assumed the outstanding debt of \$67,707 and discharged mezzanine loans with a carrying amount of \$12,791. In addition, Chartwell acquired from Melior another parcel of land for \$1,750. This cash was used to pay off the existing debt on the land.

In accordance with Canadian GAAP, assets acquired through foreclosure should be recorded at their fair value and any difference between the carrying amounts of the loans prior to foreclosure and the fair value of such assets recognized as a gain or loss. The above foreclosures did not result in any gain or loss as the carrying values of the mezzanine loans receivable were reduced to the underlying net fair value of the properties that secured these mezzanine loans.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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### 2. Acquisitions (continued):

- (ii) On May 14, 2010, Chartwell acquired a 50% interest in six retirement communities consisting of 1,045 suites in the United States (the "Meridian Portfolio") from entities affiliated with ING Real Estate Investment Management Australia PTY Limited ("ING"). The purchase price before closing costs was U.S. \$110,500 and was settled through the assumption of debt of U.S. \$74,649, not including mark to market adjustments, settlement of outstanding receivable of U.S. \$6,000, with the balance, net of working capital adjustments, being paid in cash. Prior to the completion of this transaction, Chartwell owned a 50% interest in the Meridian Portfolio.
- (iii) On June 1, 2010, Chartwell acquired a 50% interest in eight long-term care properties consisting of 1,384 suites in Ontario (the "Regency Portfolio") from ING. The purchase price before closing costs was \$79,500 and was settled through the assumption of debt of \$68,013, not including mark-to-market adjustments, with the remaining balance, net of working capital adjustments, settled in cash. Prior to the completion of this transaction, Chartwell owned a 50% interest in the Regency Portfolio.
- (iv) On June 1, 2010, Chartwell acquired a 50% interest in a 139-suite retirement property in Vaughan, Ontario from Spectrum Seniors Holdings LP ("Spectrum"). The purchase price before closing costs was \$17,350 and was settled through the assumption of debt of \$15,076 with the remaining balance due, net of working capital adjustments, being paid in cash.
- (v) On September 1, 2010, Chartwell acquired a 50% interest in a 147-suite retirement facility in Oakville, Ontario from Spectrum. The purchase price before closing costs was \$18,500 and was settled through the assumption of debt of \$12,800, settlement of an outstanding mezzanine loan of \$1,875, settlement of outstanding accounts receivable of \$940, with the remaining balance, net of working capital adjustments, being paid in cash.
- (vi) On December 1, 2010, Chartwell acquired 100% interest in a retirement property consisting of 106 suites in Huntsville, Ontario from Spectrum. The purchase price before closing costs was \$26,000 and was settled through the assumption of debt of \$16,800 and settlement of an outstanding mezzanine loan of \$2,700, with the remaining balance, net of working capital adjustments, being paid in cash.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 2. Acquisitions (continued):

The following table summarizes the allocation of the purchase price (including costs of acquisition) to each major class of assets acquired and liabilities assumed at the date of acquisition:

|   |                  |
|---|------------------|
| Properties  | \$ 290,814       |
| Management contracts, resident contracts, customer relationship and other intangibles | 22,965           |
| Capital funding receivable  | 23,054           |
| Licenses  | 12,931           |
| Future income tax liabilities   | (2,274)          |
| Mortgages assumed   | (261,051)        |
| Other liabilities   | (6,694)          |
| <b>Net assets acquired</b>  | <b>\$ 79,745</b> |
| Discharge of mezzanine loans receivable   | \$ 17,366        |
| Settlement of management contracts and accounts receivable                            | 9,301            |
| Cash consideration  | 49,783           |
| Acquisition costs   | 3,295            |
| <b>Total consideration</b>  | <b>\$ 79,745</b> |

These acquisitions have been recorded using the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition.

Chartwell continues to assess the initial valuations of the net assets acquired for each of these acquisitions. The purchase price allocation for accounting purposes may be adjusted in future periods.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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### 2. Acquisitions (continued):

#### (b) Acquisitions during the year ended December 31, 2009:

During the year ended December 31, 2009, Chartwell acquired varying interests in six seniors housing communities (619 suites). The following table summarizes the allocation of the purchase price (including costs of acquisition) to each major class of assets acquired and liabilities assumed at the date of acquisition:

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|   |    |          |
|---|----|----------|
| Properties  | \$ | 78,262   |
| Limited life intangible assets                      |    | 6,414    |
| Mortgages assumed                                   |    | (60,100) |
| Below-market resident contracts                     |    | (593)    |
| Other liabilities                                   |    | (971)    |
| <hr/>   |    |          |
| Net assets acquired                                 | \$ | 23,012   |
| <hr/>   |    |          |
| Discharge of mezzanine loans receivable             | \$ | 9,327    |
| Settlement of outstanding receivables from Spectrum |    | 10,490   |
| Cash consideration                                  |    | 1,287    |
| Acquisition costs                                   |    | 1,908    |
| <hr/>   |    |          |
| Total consideration                                 | \$ | 23,012   |

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The acquisitions have been recorded using the purchase method of accounting, with the results of operations included in these consolidated financial statements from the date of acquisition.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 3. Properties:

|                                   | 2010         |                          |                | 2009         |                          |                |
|-----------------------------------|--------------|--------------------------|----------------|--------------|--------------------------|----------------|
|                                   | Cost         | Accumulated depreciation | Net book value | Cost         | Accumulated depreciation | Net book value |
| Land                              | \$ 258,323   | \$ –                     | \$ 258,323     | \$ 231,528   | \$ –                     | \$ 231,528     |
| Buildings                         | 2,369,098    | 258,783                  | 2,110,315      | 2,099,716    | 201,368                  | 1,898,348      |
| Furniture, fixtures and equipment | 96,669       | 66,179                   | 30,490         | 86,871       | 53,981                   | 32,890         |
|                                   | 2,724,090    | 324,962                  | 2,399,128      | 2,418,115    | 255,349                  | 2,162,766      |
| Properties under development      | 37,752       | –                        | 37,752         | 67,394       | –                        | 67,394         |
| Land held for development         | 21,809       | –                        | 21,809         | 20,086       | –                        | 20,086         |
|                                   | \$ 2,783,651 | \$ 324,962               | \$ 2,458,689   | \$ 2,505,595 | \$ 255,349               | \$ 2,250,246   |

Included under properties as at December 31, 2010 are assets under capital leases with a cost of \$126,773 (2009 - 133,586) and accumulated depreciation of \$13,574 (2009 - \$10,544).

During the year ended December 31, 2010, the Trust capitalized \$1,277 (2009 - \$1,872) in interest and \$93 (2009 - \$338) in incremental operating costs to development projects.

During the year ended December 31, 2010, four properties with a carrying value of \$47,921 previously under development were reclassified to operating properties.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 4. Mezzanine loans receivable:

The following table summarizes mezzanine loans receivable from Spectrum, Melior and other joint venture partners:

|  |                                 |                     |   |                                | 2010           | 2009           |
|--|---------------------------------|---------------------|---|--------------------------------|----------------|----------------|
|  | Contractual<br>interest<br>rate | Principal<br>amount | Lending<br>expenses<br>(deferred<br>placement<br>fees), net | Provision<br>for<br>impairment | Net<br>balance | Net<br>balance |
| Spectrum and Partners,<br>Outside Quebec | 10% - 14%                       | \$ 17,677           | \$ (74)   | \$ (3,708)                     | \$ 13,895      | \$ 24,877      |
| Melior, Spectrum<br>and Partners         | 10% - 14%                       | 23,892              | (1,764)   | (17,827)                       | 4,301          | 17,014         |
| Seasons and Partners                     | 10% - 14%                       | 2,607               | –   | –                              | 2,607          | 13,432         |
|  |                                 | \$ 44,176           | \$ (1,838)  | \$ (21,535)                    | \$ 20,803      | \$ 55,323      |

On December 8, 2009, (the "Spectrum Settlement Effective Date"), as further amended during the year ended December 31, 2010, Chartwell and Spectrum agreed, among other things, that Chartwell would: (i) waive its entitlement to 5% of the purchase price, net of transaction costs, on any properties sold by Spectrum to third parties; and (ii) would limit its purchase rights of Spectrum's development properties to properties on which mezzanine loans remain outstanding, as well as three Spectrum properties located in Mississauga, Ontario, Kamloops, British Columbia and Huntsville, Ontario, (the "Three Purchase Rights"), as long as the following conditions (the "Settlement Conditions") are satisfied no later than August 16, 2010: (i) all mezzanine loans then due and other amounts owing by Spectrum to Chartwell are repaid in full (including interest thereon); and (ii) Spectrum has made an \$5,000 payment to Chartwell. Until such time, Chartwell's purchase rights with respect to Spectrum's development properties will remain in effect with compressed notice periods and interest on overdue, unsecured accounts receivable from Spectrum will be charged at 12% per annum, so long as Spectrum remains current on its obligations from the Spectrum Settlement Effective Date on new accounts receivable and interest on mezzanine loans. Upon the settlement conditions being fulfilled, Chartwell and Spectrum will sever all agreements, obligation and rights between one another, except for the Three Purchase Rights in Chartwell's favour and purchase rights on properties for which mezzanine loans outstanding have not matured. The properties which are subject to the Three Purchase Rights were selected by Chartwell as they fit within Chartwell's strategic objectives relating to property acquisitions.



# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 4. Mezzanine loans receivable (continued):

On May 10, 2010, the Trust agreed to extend the term of the Settlement Agreement with Spectrum from the original date of August 16, 2010 to December 31, 2010 to allow Spectrum more time to complete its orderly wind down.

A further extension was granted on November 17, 2010 extending the settlement date from December 31, 2010 to June 30, 2011. As part of this extension, Chartwell agreed to purchase one of Spectrum's properties located in Huntsville, Ontario for \$26,000. The remaining terms remained substantially unchanged from the original settlement conditions.

### (a) Spectrum and Partners, Outside Quebec:

The loans are secured by second charges or pledges over 10 (2009 - 13) seniors housing development properties.

During the year ended December 31, 2010, Seasons Retirement Communities ("Seasons") purchased one property from Spectrum and assumed the associated mezzanine loan in the amount of \$2,607.

During the year ended December 31, 2010, two mezzanine loans totalling \$4,575 were settled on acquisition of two properties (note 2) and a partial payment on one of its mezzanine loans in the amount of \$397 was received in cash.

### (b) Melior, Spectrum and Partners:

The loans are secured by second mortgages over six (2009 - 11) seniors housing development properties.

In the year ended December 31, 2010, Chartwell completed foreclosures of three operating properties and one parcel of vacant land in Quebec (note 2(a)(i)). As a result, mezzanine loans with a carrying amount of \$12,791 were settled. The original amount of the loans was \$22,639, which was reduced by fees recorded as a reduction of mezzanine loan balances of \$1,031, and a previously recorded impairment provision of \$8,817.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 4. Mezzanine loans receivable (continued):

During the year ended December 31, 2010, one mezzanine loan in the amount of \$3,967, which had previously been fully provided for was deemed unrecoverable and was removed from the principal amount outstanding and the provision for impairment.

Subsequent to December 31, 2010, one mezzanine loan in the amount of \$4,301 was collected in cash.

#### (c) Seasons and Partners:

These loans are secured by second charges over one (2009 - six) seniors housing development project.

During the year ended December 31, 2010, Seasons assumed Spectrum's obligation of one mezzanine loan in the amount of \$2,607 on acquisition of Spectrum's interest in one property and repaid six mezzanine loans in the amount of \$14,044 in cash.

Each mezzanine loan matures on the earliest of: (i) the fifth anniversary of the initial advance of the funds; (ii) the date of sale of the related development property; or (iii) on the second anniversary of the date upon which the property achieves a stabilized occupancy, as defined in the Development and Loan Agreements with the Borrowers. No principal amounts are due prior to maturity of each loan.

The following table represents the loan maturity schedule assuming that all outstanding mezzanine loans mature on their fifth anniversary date:

|      | Spectrum and<br>Partners,<br>Outside<br>Quebec | Melior,<br>Spectrum<br>and<br>Partners | Seasons<br>and<br>Partners | Total     |
|------|--|--|----------------------------|-----------|
| 2011 | \$ 14,250                                      | \$ 14,958                              | \$ -                       | \$ 29,208 |
| 2012 | 3,427  | 8,934                                  | 2,607                      | 14,968    |
|      | \$ 17,677                                      | \$ 23,892                              | \$ 2,607                   | \$ 44,176 |

As of December 31, 2010, Spectrum, Melior and certain other joint venture partners were in default under these mezzanine loan agreements with Chartwell. As a result, the carrying amount of these loans was reduced by \$21,535 to the estimated recoverable amount.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 5. Limited life intangible assets:

|   | 2010      |                          | 2009           |            |                          |                |
|---|-----------|--------------------------|----------------|------------|--------------------------|----------------|
|   | Cost      | Accumulated amortization | Net book value | Cost       | Accumulated amortization | Net book value |
| Management contracts and customer relationships | \$ 1,514  | \$ 223                   | \$ 1,291       | \$ 9,308   | \$ 5,266                 | \$ 4,042       |
| Resident contracts                              | 38,882    | 15,631                   | 23,251         | 80,120     | 64,695                   | 15,425         |
| Other intangibles                               | 21,279    | 9,298                    | 11,981         | 20,145     | 7,565                    | 12,580         |
|   | \$ 61,675 | \$ 25,152                | \$ 36,523      | \$ 109,573 | \$ 77,526                | \$ 32,047      |

Management contracts and customer relationships 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. Resident contracts represent in-place resident contracts valued at acquisition. Other intangibles represent the acquired value of operating leases of senior housing properties.

During the year ended December 31, 2010, Chartwell reduced the cost and accumulated amortization balances for management contracts, resident contracts and customer relationships that were fully amortized by \$60,485 (2009 - \$53,774).

### 6. Other assets:

|  | 2010      | 2009      |
|--|-----------|-----------|
| Accounts receivable  | \$ 14,289 | \$ 13,664 |
| Due from Spectrum, net of provision for impairment of \$832 (2009 - \$3,506) | 173       | 218       |
| Due from ING (a)   | 134       | 6,610     |
| Prepaid expenses and deposits  | 10,659    | 10,335    |
| Deposits in escrow   | 9,232     | 10,473    |
| Other  | 9,091     | 9,561     |
|  | \$ 43,578 | \$ 50,861 |

(a) At December 31, 2009, included in amounts due from ING was \$6,354 (U.S. \$6,000) related to ING's share of the deferred purchase price related to the Bristol portfolio acquisition which was funded by Chartwell. These amounts due from ING were repaid on closing of the acquisition of the Meridian Portfolio (note 2).

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 7. Capital funding receivable:

The capital funding receivable of \$63,865 (2009 - \$43,824) represents the discounted cash flows receivable from the Government of Ontario over a remaining period of approximately 12 years in respect of construction costs of 12 long-term care properties. The 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. The discount rate used is based upon the corresponding long-term Ontario Government Bond rates.

In 2010, Chartwell received \$5,961 in capital funding of which \$2,948 was recorded as interest income and \$3,013 as a reduction of the receivable.

## 8. Discontinued operations:

On October 1, 2009, the Trust divested its 49% interest in Horizon Bay Realty LLC ("HBR"), whose assets and liabilities included: equipment, current assets, trade accounts receivable and certain other assets and liabilities and were included in the Trust's United States Operations segment (note 17).

On June 30, 2010, the Trust disposed of one retirement community, assets and liabilities of which were included in the Canadian Retirement Operations segment for \$15,250. The purchaser assumed the existing debt of \$12,258 with proceeds of \$2,786, net of working capital adjustments being received in cash. The Trust recorded a gain on sale of \$4,394 as a result of this transaction.

On December 30, 2010, the Trust disposed of one retirement community, assets and liabilities of which were included in the Canadian Retirement Operations segment for \$18,500. Upon reclassification to discontinued operations, the value of this property had been written down by \$4,500 to its estimated fair value less costs to sell. The purchaser assumed the existing debt of \$14,396 and paid proceeds of \$3,702 net of working capital adjustments received in cash. The Trust recorded a gain on sale of \$310 on completion of this transaction.

As a condition of sale the Trust agreed to pay any defeasance fees on the retirement of the mortgage. Subsequent to December 31, 2010, defeasance fees of \$913 were paid by the Trust. The defeasance fees were included in the gain on sale calculation above.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 8. Discontinued operations (continued):

The following table summarizes the results of the above discontinued operations.

|  | 2010     | 2009        |
|--|----------|-------------|
| Revenue  | \$ 5,488 | \$ 85,156   |
| Income (loss) before undernoted items                                  | \$ 456   | \$ (10,463) |
| Gain on sale of assets   | 4,704    | –           |
| Write-down of assets held for sale to fair value<br>less costs to sell | (4,500)  | –           |
| Non-controlling interest   | (9)      | 219         |
| Income (loss) from discontinued operations                             | \$ 651   | \$ (10,244) |

During the year ended December 31, 2010, Chartwell reclassified one other property as held for sale and wrote down its carrying value by \$4,100 to the estimated fair value less costs to sell. At December 31, 2010, the Trust abandoned its plans to sell this property and reclassified it back to held for use. Results of operations for this property for all periods presented have been included in loss from continuing operations in the consolidated statements of operations and comprehensive loss.

Assets and liabilities held for sale are as follows:

|  | 2010 | 2009      |
|--|------|-----------|
| Properties                             | \$ – | \$ 33,275 |
| Cash and cash equivalents              | –    | 3,128     |
| Other assets                           | –    | 505       |
|  | –    | 36,908    |
| Mortgages payable                      | –    | 26,909    |
| Accounts payable and other liabilities | –    | 1,395     |
|  | –    | 28,304    |
|  | \$ – | \$ 8,604  |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 9. Secured debt:

#### (a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are repayable as follows for the periods ending December 31:

|   | Regular<br>principal<br>payments | Principal<br>due on<br>maturity | Total               |
|---|----------------------------------|---------------------------------|---------------------|
| 2011  | \$ 36,267                        | \$ 82,778                       | \$ 119,045          |
| 2012  | 36,904                           | 157,135                         | 194,039             |
| 2013  | 36,993                           | 103,494                         | 140,487             |
| 2014  | 32,560                           | 132,203                         | 164,763             |
| 2015  | 29,969                           | 174,441                         | 204,410             |
| 2016  | 26,891                           | 170,267                         | 197,158             |
| 2017  | 19,733                           | 237,041                         | 256,774             |
| 2018  | 20,828                           | 32,625                          | 53,453              |
| 2019  | 19,684                           | 95,462                          | 115,146             |
| 2020  | 19,628                           | 30,038                          | 49,666              |
| 2021 - 2025   | 74,158                           | 58,118                          | 132,276             |
| Thereafter  | 78,426                           | 30,414                          | 108,840             |
|   | <u>\$ 432,041</u>                | <u>\$ 1,304,016</u>             | 1,736,057           |
| Mark-to-market adjustment<br>arising on acquisition |                                  |                                 | 15,068              |
| Financing costs                                     |                                  |                                 | (18,687)            |
|   |                                  |                                 | <u>\$ 1,732,438</u> |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 9. Secured debt (continued):

|   | 2010  | 2009   |
|---|---|--|
| Mortgages at fixed rates:                         |   |  |
| Mortgages   | \$1,650,282   | \$1,578,454                                    |
| Interest rates                                    | 2.498% - 10.000%  | 2.03% - 10.00%                                 |
| Weighted average interest rate                    | 5.48%   | 5.49%  |
| Mortgages at variable rates:                      |   |  |
| Mortgages   | \$85,775  | \$53,747                                       |
| Interest rates                                    | Banker's Acceptance<br>+ 300 bps to prime<br>plus 2.25% | Lenders' COF<br>+ 2.00% to prime<br>plus 4.75% |
| Weighted average interest rate                    | 4.73%   | 3.56%  |
| Blended weighted average rate<br>of maturing debt | 5.44%   | 5.42%  |

During the year ended December 31, 2010, interest expense on mortgages payable amounted to \$94,176 (2009 - \$91,514).

Chartwell owns a 50% interest in a group of properties in the United States which are financed through a mortgage pool in the amount of \$69,030 (U.S. \$69,406). Chartwell is required to perform covenant testing on this mortgage pool on March 31, 2011 and expects not to meet two of the covenant requirements at that time. Under the terms of the loan agreement, Chartwell may be required to pay down this mortgage pool by a maximum amount of U.S. \$4,500 in order to remedy the expected breach. Chartwell is currently working with the lenders in order to remedy this expected covenant breach.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

## 9. Secured debt (continued):

### (b) Secured revolving operating credit facility:

Chartwell has arranged for a \$75,000 secured revolving operating credit facility (the "Credit Facility"). At December 31, 2010, the maximum available borrowing capacity under the Credit Facility was \$75,000 (2009 - \$61,931) based on the security provided. \$2,116 (2009 - \$1,950) of this capacity has been allocated to support various letters of credit issued by Chartwell. The Credit Facility matures on June 24, 2011. Under the terms and conditions, amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.75% or at the applicable bankers' acceptance rate plus 2.75%. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility is secured by first and second charges on specific properties. As at December 31, 2010, \$51,000 (2009 - nil) was outstanding under the Credit Facility.

## 10. Convertible debentures:

The Trust has the following series of convertible debentures outstanding:

|                                | 2010                              |                                   |           |                                   |                                   |            | 2009 |
|--------------------------------|-----------------------------------|-----------------------------------|-----------|-----------------------------------|-----------------------------------|------------|------|
|                                | 6.0%<br>Convertible<br>Debentures | 5.9%<br>Convertible<br>Debentures | Total     | 6.0%<br>Convertible<br>Debentures | 5.9%<br>Convertible<br>Debentures | Total      |      |
| Principal                      | \$ -                              | \$ 75,000                         | \$ 75,000 | \$ 124,925                        | \$ 75,000                         | \$ 199,925 |      |
| Carrying value<br>of liability | \$ -                              | \$ 70,859                         | \$ 70,859 | \$ 120,886                        | \$ 68,110                         | \$ 188,996 |      |

### (a) 6.0% Convertible Debentures:

On December 3, 2010, the Trust settled the 6.0% Convertible Debentures totalling \$124,925 for face value plus accrued interest of \$3,789 for \$128,714 in cash. In connection with the settlement, the Trust recorded an adjustment to contributed surplus of \$4,711 to reverse the equity component of the Convertible Debentures. A charge to the statements of operations and comprehensive loss for accelerated accretion and amortization of financing costs on redemption of convertible debentures of \$2,183 was computed in accordance with the guidance provided by EIC-96.



## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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### 10. Convertible debentures (continued):

Prior to redemption, interest expense recorded on the liability component of the 6.0% Convertible Debentures was recorded up to December 3, 2010 as a charge to income and was calculated at the effective rate of approximately 8.0% with the difference between the coupon interest rate of 6.0% and the effective rate of 8.0% credited to the liability component of the 6.0% Convertible Debentures such that, on the contractual maturity date the liability component would have been equal to the face value of the then outstanding 6.0% Convertible Debentures.

#### (b) 5.9% Convertible Debentures:

The 5.9% Convertible Debentures bear interest at an annual rate of 5.9% payable semi-annually in arrears on May 1 and November 1 in each year commencing May 1, 2007. Each 5.9% 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 May 1, 2012 and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.9% Convertible Debentures, at a conversion price of \$16.25 per Trust Unit. Holders converting their 5.9% 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 5.9% 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 the Trust Units. In the event Chartwell has suspended regular distributions, then a 5.9% Convertible Debenture holder, 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 interest payment date prior to the date of conversion to the date of conversion.

The 5.9% Convertible Debentures are not redeemable by Chartwell before May 1, 2010 except in the event of satisfaction of certain conditions after a change in control has occurred. On and after May 1, 2010 but prior to May 1, 2011, the 5.9% 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 the Indenture is not less than 125% of the conversion price. On or after May 1, 2011, the 5.9% 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 face value thereof plus accrued and unpaid interest.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 10. Convertible debentures (continued):

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 5.9% Convertible Debentures on redemption or at 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 5.9% Convertible Debentures trustee to satisfy the obligations to pay interest on the 5.9% Convertible Debentures.

As Chartwell's option to satisfy the principal and interest obligations through the issuance of Trust Units of Chartwell requires a variable number of Trust Units to be issued to satisfy the obligation, the 5.9% Convertible Debentures are recorded primarily as a liability. On issuance, Chartwell has recorded a liability of \$62,021, net of issue costs of \$2,416, and equity, which represents the holders' option to convert the 5.9% Convertible Debentures into Trust Units, of \$10,167, net of issue costs of \$396.

Interest expense is recorded on the liability component of the 5.9% Convertible Debentures as a charge to income and is calculated at an effective rate of approximately 10.0% with the difference between the coupon interest rate of 5.9% and the effective rate of 10.0% credited to the liability component of the 5.9% Convertible Debentures such that, at maturity, the liability component will be equal to the face value of the then outstanding 5.9% Convertible Debentures.

## 11. Accounts payable and other liabilities:

|   | 2010      | 2009      |
|---|-----------|-----------|
| Accounts payable and accrued liabilities  | \$ 77,479 | \$ 71,184 |
| Below-market resident contracts, net of accumulated<br>amortization of \$1,092 (2009 - \$2,365) | 646       | 1,467     |
| Resident deposits   | 3,973     | 4,235     |
| Deferred revenue  | 5,637     | 4,004     |
|   | <hr/>     | <hr/>     |
|   | \$ 87,735 | \$ 80,890 |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 12. Deferred consideration on business combinations:

Included in deferred consideration on business combinations are the following:

| Business combinations     | 2010     | 2009      |
|---------------------------|----------|-----------|
| Castel Royale             | \$ 520   | \$ 520    |
| Heritage Glen             | 6,992    | 9,075     |
| Merrill Gardens portfolio | –        | 3,079     |
|                           | \$ 7,512 | \$ 12,674 |

### 13. Non-controlling interest:

Non-controlling interest represents the interest of the holders of the Class B Units of Master LP, which is consolidated in these consolidated financial statements. Class B Units of Master LP are exchangeable, at the option of the holder, into Trust Units. Holders of the Class B Units of Master LP are entitled to receive distributions equal to those provided to holders of Trust Units. Class B Units are transferable to third parties with Chartwell's consent. As at December 31, 2010, there were 1,714,652 (2009 - 1,976,859) Class B Units outstanding.

The details of non-controlling interest are as follows:

|  | 2010     | 2009      |
|--|----------|-----------|
| Balance, beginning of year                             | \$ 7,813 | \$ 15,990 |
| Non-controlling interest's share of loss for the year  | (371)    | (1,447)   |
| Distributions on Class B Units of Master LP            | (989)    | (1,395)   |
| Exchange of Class B Units of Master LP for Trust Units | (959)    | (4,983)   |
| Other comprehensive loss                               | (65)     | (352)     |
| Balance, end of year                                   | \$ 5,429 | \$ 7,813  |

## **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Years ended December 31, 2010 and 2009

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### **14. Unitholders' equity:**

#### **(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 the holders. Upon receipt of the redemption notice by Chartwell, all rights to and under the 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 the Trustees and be satisfied by way of a 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 SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 14. Unitholders' equity (continued):

The following units are issued and outstanding and exclude the issuance of Trust Units issued under LTIP:

|   | Number of<br>voting units | Amount       |
|---|---------------------------|--------------|
| Balance, December 31, 2008  | 96,369,598                | \$ 1,137,031 |
| Trust Units issued under DRIP   | 1,013,922                 | 5,074        |
| Trust Units issued on exchange of Class B<br>Units of Master LP       | 888,613                   | 4,965        |
| Trust Units released on settlement of<br>LTIP receivable (note 14(b)) | 120,000                   | 1,200        |
| Trust Units issued pursuant to public offering                        | 27,370,000                | 158,746      |
| Balance, December 31, 2009  | 125,762,133               | 1,307,016    |
| Trust Units issued under DRIP   | 628,792                   | 4,795        |
| Trust Units issued on exchange of Class B<br>Units of Master LP       | 262,207                   | 959          |
| Trust Units released on settlement of<br>LTIP receivable (note 14(b)) | 170,000                   | 1,694        |
| Trust Units issued pursuant to public offering                        | 13,775,000                | 124,217      |
| Balance, December 31, 2010  | 140,598,132               | \$ 1,438,681 |

#### (b) Long-Term Incentive Plan:

Chartwell has established an LTIP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for 20 trading days preceding the date of issuance, which will be payable in cash instalments, over a term not to exceed 10 years. Participants are required to pay interest on the LTIP receivable at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time Trust Units are issued over a 10-year fixed period. All distributions on the Trust Units under the LTIP are applied as payments, first of interest and the balance toward the principal of the LTIP receivable. Participants may prepay any principal at their discretion and receive the units. Trust Units issued under the LTIP are held as security for the outstanding LTIP receivable. If a participant elects to withdraw from the plan without paying the LTIP receivable in full, Chartwell may elect to sell the Trust LTIP Units in satisfaction of the outstanding receivable amounts. Chartwell's recourse is limited to the Trust Units it holds as security.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 14. Unitholders' equity (continued):

Subsequent to 2005, the LTIP was amended to include vesting provisions at the discretion of the Trustees. Since that time, all units issued to full time employees have the following vesting provisions: one-third in the first year of employment, one-third in the third year of employment and one-third in the fifth year of employment.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the LTIP, of which 2,244,858 (2009 - 2,436,895) were issued and 3,656,032 (2009 - 3,463,995) were available to be issued at December 31, 2010.

The following table summarizes Trust Units issued under the LTIP:

|  | Number of<br>Trust units<br>issued under<br>LTIP | Amount    |
|--|--|-----------|
| Balance, December 31, 2008                               | 2,571,990  | \$ 34,099 |
| Issuance of Trust Units under LTIP                       | 122,500  | 614       |
| Compensation expense                                     | –  | 493       |
| Trust Units transferred to Treasury                      | (137,595)  | (2,673)   |
| Trust Units released on settlement of LTIP<br>receivable | (120,000)  | (1,200)   |
| Balance, December 31, 2009                               | 2,436,895  | 31,333    |
| Issuance of Trust Units under LTIP                       | 146,882  | 1,139     |
| Compensation expense                                     | –  | 314       |
| Trust Units transferred to Treasury                      | (168,919)  | (1,757)   |
| Trust Units released on settlement of LTIP<br>receivable | (170,000)  | (1,694)   |
| Balance, December 31, 2010                               | 2,244,858  | \$ 29,335 |

The market value of the Trust Units at December 31, 2010 was \$8.18 per unit (2009 - \$7.03).

The compensation expense attributable to the LTIP of \$314 for the year ended December 31, 2010 (2009 - \$493) is included in general, administrative and trust expenses with a corresponding amount included in Unitholders' equity as units under subscription. The LTIP receivable are 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.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 14. Unitholders' equity (continued):

#### (c) Distribution Reinvestment Program:

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%.

#### (d) Deferred Unit Plan:

During 2008, the Trust implemented a Deferred Unit Plan which was approved by Unitholders at the annual general meeting held on May 21, 2009. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their trustee fees in the form of Deferred Trust Units. The number awarded is based on the fair market value, as defined by the plan, of the Trust Units 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 the Trust's Units, as defined in the plan, on the date distributions are paid. Deferred Trust Units fully vest when directors retire from the Board.

Effective July 1, 2010, the Deferred Unit Plan was amended to provide that director fees elected to be received in deferred units would be matched on a one-for-one basis by the Trust for subsequent issuances under the plan.

The following table summarizes the Deferred Trust Unit activity for the year ended December 31, 2010:

|                            | Units<br>outstanding | Amount   |
|----------------------------|----------------------|----------|
| Balance, December 31, 2008 | 34,285               | \$ 195   |
| Units granted              | 77,441               | 401      |
| Reinvested distributions   | 8,866                | 48       |
| Balance, December 31, 2009 | 120,592              | 644      |
| Units granted              | 78,306               | 641      |
| Reinvested distributions   | 9,936                | 78       |
| Balance, December 31, 2010 | 208,834              | \$ 1,363 |

## **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2010 and 2009

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### **14. Unitholders' equity (continued):**

#### **(e) Restricted Unit plan:**

Under the terms of the Restricted Unit plan, qualified senior employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash. The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of the Trust Units, as defined by the plan, on the date distributions are paid. Such grants are based on an individual's performance as compared to goals set at the beginning of a given year and intended to supplement awards under the annual bonus plan. Restricted Units are recognized as compensation expense evenly over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is adjusted to fair market value based on the trading value of Trust Units at each reporting date.

During the year ended December 31, 2010, 95,619 Restricted Trust Units were issued, 89,760 related to the grant and 5,859 related to reinvested distributions. As at December 31, 2010, the liability associated with Restricted Trust Units was \$238.



## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 15. Loss per unit calculation:

|  | 2010               | 2009               |
|--|--------------------|--------------------|
| Numerator:   |                    |                    |
| Loss for the year - continuing operations                          | \$ (26,988)        | \$ (61,001)        |
| Income (loss) for the year - discontinued operations               | 651                | (10,244)           |
|  | <u>\$ (26,337)</u> | <u>\$ (71,245)</u> |
| Denominator:   |                    |                    |
| Denominator for basic earnings per unit - weighted average units   | 128,681,198        | 101,361,927        |
| Denominator for diluted earnings per unit - weighted average units | 128,681,198        | 101,361,927        |
| Income (loss) per unit:  |                    |                    |
| Basic and diluted - continuing operations                          | \$ (0.21)          | \$ (0.60)          |
| Basic and diluted - discontinued operations                        | 0.01               | (0.10)             |
| <b>Total loss per unit</b>   | <u>\$ (0.20)</u>   | <u>\$ (0.70)</u>   |

Excluded from the calculation of dilutive weighted average units are the following weighted average units:

|  | 2010       | 2009       |
|--|------------|------------|
| Trust Units issued under LTIP                | 2,326,802  | 2,590,204  |
| Class B Units of Master LP                   | 1,845,456  | 2,113,511  |
| Assumed conversion of convertible debentures | 12,009,084 | 12,623,397 |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 16. Transactions with Spectrum:

Prior to April 30, 2009, Spectrum met the definition of a related party as defined by CICA Handbook Section 3840. Subsequent to April 30, 2009, due to a change in senior management, Spectrum no longer met the definition of a related party.

Except as disclosed elsewhere in these consolidated financial statements, transactions with Spectrum were as follows:

|   | 2010     | 2009     |
|---|----------|----------|
| Contractual mezzanine loan interest income (note 4) | \$ 2,100 | \$ 4,128 |
| Effective interest rate adjustments                 | (20)     | (190)    |
| Development fees                                    | –        | 321      |
| Operations management fees                          | 1,189    | 1,876    |
| Other fees  | 25       | 81       |
| Interest on overdue accounts receivable             | 445      | 487      |

To the extent that ultimate collection of revenue is not reasonably assured Chartwell recognizes revenue from Spectrum only as cash is received.

### 17. Segmented information:

Chartwell monitors and operates its Canadian Retirement, Canadian Long-Term Care, Canadian Management and United States Operations separately.

The accounting policies of each of the segments are the same as those described for Chartwell. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material intersegment revenue, transfers or expenses.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

## 17. Segmented information (continued):

| 2010   | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Total              |
|--|--------------------------------|------------------------------------|--------------------------------|--------------------------|--------------------|
| Revenue  | \$ 342,363                     | \$ 176,563                         | \$ 4,675                       | \$ 182,752               | \$ 706,353         |
| Below-market lease amortization  | 732                            | –                                  | –                              | –                        | 732                |
| Direct operating expense   | (220,060)                      | (152,851)                          | (4,006)                        | (120,286)                | (497,203)          |
| Income before the undernoted   | 123,035                        | 23,712                             | 669                            | 62,466                   | 209,882            |
| Interest expense   | (39,695)                       | (11,075)                           | –                              | (41,131)                 | (91,901)           |
| Property lease expense   | (127)                          | (321)                              | –                              | (2,004)                  | (2,452)            |
| Income before the following  | 83,213                         | 12,316                             | 669                            | 19,331                   | 115,529            |
| Depreciation and amortization  | (53,545)                       | (9,751)                            | (668)                          | (33,370)                 | (97,334)           |
| Write-down in carrying value of assets   | (4,100)                        | –                                  | –                              | –                        | (4,100)            |
|  | <u>\$ 25,568</u>               | <u>\$ 2,565</u>                    | <u>\$ 1</u>                    | <u>\$ (14,039)</u>       | 14,095             |
| Items not allocated to operating segments:   |                                |                                    |                                |                          |                    |
| Mezzanine loan interest, bank interest and other income  |                                |                                    |                                |                          | 9,959              |
| General, administrative and trust expenses   |                                |                                    |                                |                          | (20,577)           |
| Interest on convertible debentures and other items   |                                |                                    |                                |                          | (18,123)           |
| Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss) |                                |                                    |                                |                          | (3,794)            |
| Accelerated accretion and amortization of financing costs on redemption of convertible debentures                                |                                |                                    |                                |                          | (2,183)            |
| Non-controlling interest   |                                |                                    |                                |                          | 380                |
| Current income tax expense   |                                |                                    |                                |                          | (281)              |
| Future income tax expense  |                                |                                    |                                |                          | (6,464)            |
| Income from discontinued operations  |                                |                                    |                                |                          | 651                |
| <b>Loss for the year</b>   |                                |                                    |                                |                          | <b>\$ (26,337)</b> |
| Expenditures for assets by segment:  |                                |                                    |                                |                          |                    |
| Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets                  | \$ 144,336                     | \$ 87,603                          | \$ –                           | \$ 108,857               | \$ 340,796         |
| Capital improvements   | 23,860                         | 11,376                             | –                              | 6,807                    | 42,043             |

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

## 17. Segmented information (continued):

| 2009   | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Total       |
|--|--------------------------------|------------------------------------|--------------------------------|--------------------------|-------------|
| Revenue  | \$ 317,372                     | \$ 145,625                         | \$ 7,347                       | \$ 183,809               | \$ 654,153  |
| Below-market lease amortization  | 744                            | –                                  | –                              | 357                      | 1,101       |
| Direct operating expense   | (207,778)                      | (127,286)                          | (4,099)                        | (118,851)                | (458,014)   |
| Income before the undernoted   | 110,338                        | 18,339                             | 3,248                          | 65,315                   | 197,240     |
| Interest expense   | (38,652)                       | (9,196)                            | –                              | (43,817)                 | (91,665)    |
| Property lease expense   | (134)                          | (204)                              | –                              | (2,260)                  | (2,598)     |
| Income before the following  | 71,552                         | 8,939                              | 3,248                          | 19,238                   | 102,977     |
| Depreciation and amortization  | (57,870)                       | (7,807)                            | (1,678)                        | (43,875)                 | (111,230)   |
|  | <u>\$ 13,682</u>               | <u>\$ 1,132</u>                    | <u>\$ 1,570</u>                | <u>\$ (24,637)</u>       | (8,253)     |
| Items not allocated to operating segments:   |                                |                                    |                                |                          |             |
| Mezzanine loan interest, bank interest and other income  |                                |                                    |                                |                          | 11,292      |
| General, administrative and trust expenses   |                                |                                    |                                |                          | (21,008)    |
| Interest on convertible debentures and other items   |                                |                                    |                                |                          | (16,283)    |
| Unrealized and realized gain (loss) on derivative financial instruments and unrealized and realized foreign exchange gain (loss) |                                |                                    |                                |                          | (6,961)     |
| Provision for impairment of mezzanine loans and accounts receivable  |                                |                                    |                                |                          | (30,684)    |
| Non-controlling interest   |                                |                                    |                                |                          | 1,228       |
| Current income tax expense   |                                |                                    |                                |                          | (85)        |
| Future income tax recovery   |                                |                                    |                                |                          | 9,753       |
| Loss from discontinued operations  |                                |                                    |                                |                          | (10,244)    |
| Loss for the year  |                                |                                    |                                |                          | \$ (71,245) |
| Expenditures for assets by segment:  |                                |                                    |                                |                          |             |
| Acquisitions - properties, land held for development, limited life intangible assets, licenses and other assets                  | \$ 84,676                      | \$ –                               | \$ –                           | \$ –                     | \$ 84,676   |
| Capital improvements   | 26,955                         | 2,767                              | –                              | 10,148                   | 39,870      |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 17. Segmented information (continued):

| 2010              | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Other     | Total        |
|-------------------|--------------------------------|------------------------------------|--------------------------------|--------------------------|-----------|--------------|
| Total assets      | \$ 1,455,505                   | \$ 394,242                         | \$ 1,069                       | \$ 790,286               | \$ 35,665 | \$ 2,676,767 |
| Total liabilities | 947,532                        | 252,143                            | –                              | 632,914                  | 148,770   | 1,981,359    |

| 2009              | Canadian Retirement Operations | Canadian Long-Term Care Operations | Canadian Management Operations | United States Operations | Other      | Total        |
|-------------------|--------------------------------|------------------------------------|--------------------------------|--------------------------|------------|--------------|
| Total assets      | \$ 1,382,074                   | \$ 295,161                         | \$ 3,476                       | \$ 749,087               | \$ 168,876 | \$ 2,598,674 |
| Total liabilities | 949,332                        | 180,933                            | –                              | 594,879                  | 208,116    | 1,933,260    |

### 18. Joint venture operations and variable interest entities:

#### (a) Joint venture operations:

The following amounts included in the consolidated financial statements are Chartwell's proportionate interest in its joint ventures:

|             | 2010       | 2009       |
|-------------|------------|------------|
| Assets      | \$ 387,473 | \$ 607,524 |
| Liabilities | 317,640    | 481,583    |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 18. Joint venture operations and variable interest entities (continued):

|  | 2010       | 2009       |
|--|------------|------------|
| Revenue  | \$ 112,652 | \$ 238,618 |
| Expenses, including depreciation and<br>amortization of \$20,491 (2009 - \$31,246) | 114,378    | 256,704    |
| Loss for the year  | (1,726)    | (18,086)   |
| Cash provided by (used in):  |            |            |
| Operating activities   | \$ (3,811) | \$ 12,171  |
| Financing activities   | 6,865      | (23,509)   |
| Investing activities   | (1,163)    | 8,223      |

Chartwell's joint venture operations are generally undertaken through entities in which the Trust holds an indirect interest. The joint venture entities have liabilities in excess of Chartwell's proportionate share amounting to \$317,640 (2009 - \$481,565), which have not been recorded in the Trust's financial statements. The assets of these joint ventures are available and, in the opinion of Chartwell, are sufficient to satisfy these liabilities.

#### (b) Variable interest entities:

At December 31, 2010, Chartwell holds variable interests in 9 (2009 - 12) VIEs. Chartwell provides development services, mezzanine loans, structuring services and consulting services to these entities.

As of December 31, 2010, Chartwell had mezzanine loans receivable of \$11,685 (net of provision for impairment of \$19,283) (2009 - \$21,568, (net of provision for impairment of \$18,726 from these entities)). During the year ended December 31, 2010, Chartwell earned \$1,742 (2009 - \$4,059) in interest from these entities.

Although these entities were identified as VIEs, it was determined that Chartwell is not the primary beneficiary and, therefore, these VIEs are not subject to consolidation.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 19. Commitments and contingencies:

### (a) Operating leases of seniors housing properties:

Chartwell has a leasehold interest in two properties acquired with the Merrill Gardens Portfolio. The term of these leases expire on December 31, 2017 and the leases have one renewal option for 10 years each. Minimum lease payments under these leases is \$1,589 (U.S. \$1,597) per annum and a total of \$11,120 (U.S. \$11,181) for the term of the leases.

The lease provides Chartwell with the option to purchase the two properties at the end of the original lease term or at the end of the extension based on a formula contained in the lease.

### (b) Other leases:

Chartwell owns one property in Alberta, Canada subject to a land lease. This lease expires on July 17, 2061 with annual payments of \$126.

Pursuant to the Regency Portfolio acquisition in 2007 and 2010, the Trust assumed one land lease expiring August 31, 2044 with annual payments of \$113 through to August 31, 2024 and \$136 for the remainder of the term, and one land lease expiring May 31, 2048 with annual payments of \$156, negotiated to market every 15 years thereafter.

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to April 30, 2016. Annual payments in aggregate on these leases vary from \$583 to \$1,166 over the remaining term of the leases.

### (c) Purchase obligations:

Chartwell has entered into various construction contracts related to various development and asset improvement projects. As at December 31, 2010, the remaining commitments under these contracts amounted to approximately \$29,079.

As at December 31, 2010, Chartwell has entered into fixed-price electricity and natural gas contracts with local utilities in the United States for \$1,005 (U.S. \$1,011) to provide electricity for its own use at its properties.

# CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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## 19. Commitments and contingencies (continued):

### (d) Contingent consideration on acquisitions:

Under the respective Purchase and Sale Agreements, contingent consideration is payable upon properties achieving predetermined operating targets over set time periods.

At December 31, 2010, contingent consideration on acquisitions of properties amounted to nil (2009 - \$2,795).

### (e) Letters of credit:

As at December 31, 2010, Chartwell was contingently liable for letters of credit in the amount of \$2,348 (2009 - \$2,182).

### (f) Other contracts:

The properties Chartwell owns in the United States are managed by Horizon Bay Chartwell LLC ("HBC") and HBC II Manager LLC ("HBC II"). The properties' management agreements are for a term of 20 to 30 years and call for payment of management fees between 4.0% and 5.5% of gross revenue plus incentive fee based on certain operating targets. Chartwell owns a 50% interest in HBC and an 80% interest in HBC II.

### (g) 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 SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 20. Supplemental cash flow information:

The change in non-cash operating items for the years ended December 31 are as follows:

|  | 2010            | 2009               |
|--|-----------------|--------------------|
| Change in non-cash operating items:    |                 |                    |
| Accounts receivable                    | \$ 3,687        | \$ 475             |
| Deposits on acquisitions               | –               | (2,399)            |
| Due from Spectrum                      | 45              | (4,237)            |
| Due from ING                           | 20              | (6,639)            |
| Accounts payable and other liabilities | (6,304)         | (4,100)            |
| Prepaid expenses                       | 766             | (291)              |
| Other                                  | 1,123           | (8,046)            |
|  | <u>\$ (663)</u> | <u>\$ (25,237)</u> |

The following amounts recognized during the year ended December 31 have been excluded from operating, financing and investing activities in the consolidated statements of cash flows:

|   | 2010      | 2009     |
|---|-----------|----------|
| Non-cash consideration on acquisitions:       |           |          |
| Discharge of mezzanine loans receivable       | \$ 17,366 | \$ 9,327 |
| Accounts receivable settlement                | 7,273     | 10,490   |
| Distributions applied against LTIP receivable | 1,235     | 1,771    |
| Interest on LTIP receivable                   | 181       | 825      |
| Trust Units issued pursuant to the DRIP       | 4,795     | 5,074    |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 20. Supplemental cash flow information (continued):

In accordance with Chartwell's Seventh Amended and Restated Declaration of Trust, the distributions to Trust Unitholders will be within the discretion of the Trustees. The Trustee will continue to rely upon forward-looking cash flow information, including internal forecasts and budgets to establish the level of cash distributions.

During the year ended December 31, 2010, interest paid amounted to \$107,116 (2009 - \$101,311).

During the year ended December, 2010, cash distributions on Trust Units amounted to \$64,636 (2009 - \$61,986).

### 21. Income taxes:

For the year ended December 31, 2010, Chartwell recorded a current income tax expense of \$281 (2009 - \$85) and a future income tax expense of \$6,464 (2009 - recovery of \$9,753).

The tax effects of temporary differences that give rise to significant portions of the Canadian future income tax assets and liabilities are as follows as for the years ended December 31:

|                                 | 2010        | 2009        |
|---------------------------------|-------------|-------------|
| Future income tax assets:       |             |             |
| Mortgages payable               | \$ 2,918    | \$ 2,618    |
| Issue costs                     | 3,188       | 4,004       |
| Losses carried forward          | 2,174       | 2,201       |
| Other                           | 1,575       | 2,949       |
| Valuation allowance             | (647)       | (382)       |
|                                 | 9,208       | 11,390      |
| Future income tax liabilities:  |             |             |
| Properties                      | (11,460)    | (13,909)    |
| Capital funding receivable      | (13,752)    | (8,689)     |
| Limited life intangible assets  | (4,058)     | (5,157)     |
| Licenses                        | (4,935)     | (1,568)     |
| Other                           | (313)       | (234)       |
|                                 | (34,518)    | (29,557)    |
| Net future income tax liability | \$ (25,310) | \$ (18,167) |

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

### 21. Income taxes (continued):

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. At December 31, 2010, these subsidiaries had accumulated net operating losses available for carryforward for income tax purposes totalling approximately \$50,995 (U.S. \$51,272) which will expire between 2025 and 2030.

As at December 31, 2010, the net future tax assets of these corporate subsidiaries consist of net operating losses and tax and book basis differences relating to the United States operations of \$47,963 (U.S. \$48,223) against which a valuation allowance of \$47,963 (U.S. \$48,223) has been recorded.

The provision for income taxes in the consolidated statements of operations and comprehensive loss represents an effective income tax rate different than the Canadian SIFT tax rate of 31% (2009 - 33.0%). The differences for the years ended December 31 are as follows:

|  | 2010        | 2009        |
|--|-------------|-------------|
| Loss before income taxes                               | \$ (19,972) | \$ (71,897) |
| Computed income tax recovery at Canadian SIFT tax rate | \$ (6,191)  | \$ (23,726) |
| Increase (decrease) resulting from:                    |             |             |
| Effect of permanent differences                        | 7,516       | 3,529       |
| Change in valuation allowance                          | 5,960       | 10,224      |
| International income tax rate differences              | (948)       | (1,380)     |
| Changes in tax rates                                   | 127         | 1,772       |
| Other  | 281         | (87)        |
| Income tax expense (recovery)                          | \$ 6,745    | \$ (9,668)  |

### 22. Financial instruments and financial risk management:

#### (a) Classification, carrying values and fair values of financial instruments:

The classification of financial instruments, other than derivative financial instruments designated as hedges, as well as their carrying amounts and fair values, are shown in the table below.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

Fair value represents management's estimates of the market value at a given point in time. The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheets for the years ended December 31 are as follows:

|  | 2010           |            | 2009           |            |
|--|----------------|------------|----------------|------------|
|  | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets:                                  |                |            |                |            |
| Loans and receivables, recorded at amortized cost: |                |            |                |            |
| Mezzanine loans receivable (i)                     | \$ 20,803      | \$ 20,062  | \$ 55,323      | \$ 53,997  |
| Capital funding receivable (ii)                    | 63,865         | 61,908     | 43,824         | 47,719     |
| Financial liabilities:                             |                |            |                |            |
| Financial liabilities, recorded at amortized cost: |                |            |                |            |
| Mortgages payable (iii)                            | 1,732,438      | 1,797,605  | 1,625,281      | 1,629,609  |
| Convertible debentures (iv)                        | 81,026         | 76,875     | 203,874        | 203,674    |
| Revolving operating credit facility                | 51,000         | 51,000     | –              | –          |

The Trust's other financial assets are classified as loans and receivables, which include amounts receivable and deposits and are measured at amortized cost. The Trust's other financial liabilities are measured at amortized cost, which include accounts payable and accrued liabilities and deposits. The carrying values of these other financial instruments approximate their fair values due to their short period to receipt or payment of cash. Cash and cash equivalents are classified as held-for-trading and are measured at fair value.

Basis for determining fair values:

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

- (i) The fair value of mezzanine loans receivable is estimated based on discounted expected future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

- (ii) The fair value of capital funding receivable is estimated by discounting the expected future cash flows using the yield of the applicable bonds issued by the Province of Ontario.
- (iii) 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.
- (iv) The fair value of the convertible debentures is based on market prices, which includes both the debt and equity components.

The carrying value of the convertible debentures is recorded as a financial liability and equity as follows:

|           | 2010             | 2009              |
|-----------|------------------|-------------------|
| Liability | \$ 70,859        | \$ 188,996        |
| Equity    | 10,167           | 14,878            |
|           | <u>\$ 81,026</u> | <u>\$ 203,874</u> |

Chartwell has not estimated the market value of the liability and equity components of the convertible debentures separately as neither is traded separately in an active market such that management can reliably estimate their respective fair values.

Fair-value estimates represent point-in-time estimates and may not reflect fair value in the future. These calculations involve uncertainties and are a matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

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

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. Amongst others, Chartwell is exposed to financial risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine loans, risks of changes in foreign exchange rates and rate regulation by provincial governments.

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

These risks are managed as follows:

#### (i) Credit risk:

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

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 the Trust's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

In addition to project-specific security, all Spectrum mezzanine loans contain cross-default provisions and are secured by Spectrum's corporate guarantee. Chartwell is involved in the operations management of Spectrum's properties. The mezzanine loan compliance group monitors performance and risk of each loan on an ongoing basis and reports quarterly to the Investment Committee of Chartwell.

On December 9, 2009, Chartwell entered into a Settlement Agreement with Spectrum (note 4(a)) and is working with Spectrum to complete transactions contemplated by the Settlement Agreement. This Settlement Agreement has been subsequently amended to extend the settlement date to June 30, 2011. Chartwell recorded an impairment provision against its mezzanine loans to Spectrum outside of Quebec of \$3,708. Chartwell completed an evaluation of the project-specific security underlying each mezzanine loan, as well as an evaluation of Spectrum's corporate guarantee based on Spectrum's financial information as at December 31, 2010. The process of determining fair values is subjective and requires management to exercise a significant amount of judgement in making valuation assumptions. Based on this evaluation, Chartwell believes that Spectrum has sufficient equity value to allow it to satisfy its remaining obligations to Chartwell in due course.

On August 19, 2009, Chartwell entered into a Settlement Agreement with Melior to resolve certain issues relating to Melior's performance of its obligations under mezzanine loan agreements. Chartwell recorded a cumulative impairment provision against its mezzanine loans to Melior and its joint ventures partners in Quebec in the amount of \$17,827.

Receivables from provincial governments represent capital and operating funding for licensed long-term care properties primarily from the agencies of the Government of Ontario. Management believes that collection risk on these receivables is not significant.

Generally, the carrying amount on the consolidated balance sheets of the Trust's financial assets exposed to credit risk, net of applicable loss allowances, represents the Trust's maximum exposure to credit risk.

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.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

The aging of resident receivables at December 31, 2010 is as follows:

|                                 |                        |
|---------------------------------|------------------------|
| Current                         | \$ 3,210               |
| 31 - 60 days                    | 833                    |
| 61 - 90 days                    | 301                    |
| Over 90 days                    | 1,507                  |
|                                 | <u>5,851</u>           |
| Allowance for doubtful accounts | 1,541                  |
| <b>Net resident receivables</b> | <b><u>\$ 4,310</u></b> |

The Trust limits its exposure to credit risk related to derivatives by transacting with counterparties that are stable and of high credit quality.

#### (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.

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

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 new equity by issuing units or convertible debentures or the disposition of properties. At December 31, 2010, the Trust had \$21,884 available and undrawn on the Credit Facility.



## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust 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.

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

Chartwell's major contractual obligations for the next 24 months as at December 31, 2010 were as follows:

|  | 2011              | 2012              | Total             |
|--|-------------------|-------------------|-------------------|
| Mortgage principal repayments              | \$ 119,045        | \$ 194,039        | \$ 313,084        |
| Purchase obligations                       | 33,104            | 5,000             | 38,104            |
| Property operating leases                  | 1,589             | 1,589             | 3,178             |
| Other operating leases                     | 1,166             | 1,166             | 2,332             |
| Land leases                                | 395               | 395               | 790               |
| Maturity of 5.9% Convertible<br>Debentures | –                 | 75,000            | 75,000            |
| Revolving operating credit facility        | 51,000            | –                 | 51,000            |
|  | <u>\$ 206,299</u> | <u>\$ 277,189</u> | <u>\$ 483,488</u> |

#### (iii) Market risk:

Market risk is the risk of an adverse financial impact due to a change in market conditions, such as foreign exchange rates, interest rates and equity prices, that will affect Chartwell's income or the value of its holdings of financial instruments. Chartwell may buy derivative instruments in the ordinary course of business, and also may incur financial liabilities, in order to manage potential market risks.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

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

Years ended December 31, 2010 and 2009

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

#### (a) Interest rate risk:

Interest rate risk is the risk that the fair value or 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, 2010, \$136,775 (2009 - \$53,747) of Chartwell's mortgages and loans payable, excluding one hedged loan, 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 from 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.

To reduce the interest rate cash flow risk on one of its mortgages payable, Chartwell entered into an interest rate swap arrangement with a current notional principal amount of \$10,807 that entitles Chartwell to receive interest at floating rates on the notional principal amount and obliges it to pay interest at a fixed rate of 5.6% until the mortgage matures in February 2014. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a Canadian chartered bank. The fair value of the interest rate swap arrangement, which is a Level 2 measurement, based on an estimate of the cost to close the contract as at December 31, 2010, is a loss position of \$1,088 (2009 - \$1,322), which is included in accrued liabilities on the consolidated balance sheets. Included in other comprehensive loss for the year ended December 31, 2010 is a gain of \$81, net of future income taxes of nil (2009 - gain of \$490, net of future income taxes of \$147) that relates to the effective portion of the net change in fair value of the interest rate swap arrangement that has been designated as a hedge.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

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

At December 31, 2010, the Trust's interest-bearing financial instruments were:

|                                    | Carrying amount |           |
|------------------------------------|-----------------|-----------|
|                                    | 2010            | 2009      |
| Fixed-rate instruments:            |                 |           |
| Financial assets (mezzanine loans) | \$ 20,803       | \$ 55,323 |
| Financial liabilities              | 1,721,141       | 1,767,450 |
| Variable-rate instruments:         |                 |           |
| Financial liabilities              | \$ 136,775      | \$ 53,747 |

A change in interest rates at December 31, 2010 would not affect net income with respect to the fixed-rate instruments, including hedged loans. An increase of 100 basis points in interest rates at December 31, 2010 for the variable-rate mortgages would have decreased equity by \$1,368 and increased the loss for the year by \$1,368 (on a pre-tax basis).

#### (b) Foreign currency exchange risk:

At December 31, 2010, through its self-sustaining United States operations, 30% (2009 - 29%) of Chartwell's assets and 35% (2009 - 35%) of Chartwell's mortgages payable were held in the United States and 25% (2009 - 35%) of its revenue was generated in the United States. Foreign currency exchange risk results from changes in the exchange rate between Chartwell's reporting currency (Canadian dollar) and the U.S. dollar in respect of intercompany balances, cash and other U.S. dollar-denominated financial instruments, which are not a component of the self-sustaining United States operations or part of the net investment in self-sustaining United States operations.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

Whenever possible, Chartwell strives to achieve a natural hedge to mitigate its foreign currency fluctuation risk. For example, cash flow from United States operating activities is first used for repayment of loans denominated in U.S. dollars. Chartwell may use derivative financial instruments to hedge its net foreign currency exposures. Chartwell's policy is not to use derivative financial instruments for trading or speculative purposes. These derivative instruments may or may not qualify for hedge accounting treatment in the consolidated financial statements. The United States operations are primarily funded through U.S. dollar-denominated debt, which serves to mitigate foreign exchange risk. There were no foreign exchange hedge contracts outstanding as at December 31, 2010.

Chartwell is exposed to the following currency risk on cash, intercompany balances and its net investment in self-sustaining United States operations at December 31, 2010:

|  | U.S. dollar       |
|--|-------------------|
| Cash   | \$ 685            |
| Loans receivable from self-sustaining United States operations | 37,500            |
| Net investment in self-sustaining United States operations     | 106,792           |
| <b>Net exposure</b>  | <b>\$ 144,977</b> |

A one cent reduction in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased the loss for the year and decreased other comprehensive loss (on a pre-tax basis) for the year by the amounts shown below:

|   |        |
|---|--------|
| Decrease in loss for the year                     | \$ 526 |
| Decrease in other comprehensive loss for the year | 1,068  |

#### (iv) Reliance on government funding:

Chartwell holds licenses related to each of its long-term care communities and in certain cases, retirement communities. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2010, the Trust received approximately \$159,565 (2009 - \$136,418) in funding in respect of these licenses, which has been recorded as resident revenue. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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### 23. Capital structure financial policies:

The Trust's primary objectives in managing capital are:

- to provide stable and growing distributions to Unitholders;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that the Trust complies with externally imposed capital requirements;
- to ensure that the Trust has sufficient capital to execute on its strategic objectives including targeted capital maintenance expenditures;
- to meet its development and internal growth requirements; and
- strategic acquisitions.

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

Management defines capital as the Trust's total unitholders' equity and long-term debt. The Trust's long-term debt primarily includes mortgages payable and convertible debentures. The issued and outstanding convertible debentures may be converted into Trust Units at the option of the holder at the specified conversion price. At the maturity date, the Trust may elect to issue units in lieu of cash to satisfy its convertible debenture obligations. The Trust has access to a revolving Credit Facility that is secured by first and second charges on certain of its properties.

The Board of Trustees is responsible for overseeing the Trust's capital management and does so through quarterly Trustees' meetings, review of financial information and regular communication with officers and senior management of the Trust. The Board of Trustees also reviews the level of any distributions that should be made.

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

## CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2010 and 2009

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

The Trust monitors capital based on the debt to adjusted gross book value ratio. It also monitors its interest coverage ratio.

The Trust's strategy for capital management is driven by policies stated under the Declaration of Trust and external requirements from certain of its lenders. There have been no changes in the Trust's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2010 and 2009:

|   | 2010  | 2009  | Increase<br>(decrease) |
|---|-------|-------|------------------------|
| Debt to adjusted gross book value ratio<br>(excluding convertible debentures) | 55.3% | 53.4% | 1.9 pp                 |
| Debt to adjusted gross book value ratio<br>(including convertible debentures) | 57.7% | 59.9% | (2.2) pp               |
| Interest coverage ratio   | 1.75x | 1.66x | 0.09x                  |

pp = percentage points

Debt includes guarantees and is determined on a consolidated basis for the Trust and its consolidated subsidiaries.

Adjusted gross book value means, at any time, the consolidated book value of the assets of the Trust, as shown on the Trust's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of the General Partner at any time, the appraised value thereof), 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.

The debt to adjusted gross book value ratio, including Convertible Debentures, at December 31, 2010 decreased primarily due to the redemption of the 6.0% convertible debenture from the proceeds of an equity offering completed in 2010.

## **CHARTWELL SENIORS HOUSING REAL ESTATE INVESTMENT TRUST**

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

Years ended December 31, 2010 and 2009

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### **24. Guarantees:**

During 2010, Chartwell remains as a guarantor on the debt of one property to a maximum amount of \$6,098 (2009 - \$6,098). The owners of this property posted one irrevocable letter of credit in favour of Chartwell for the full amount of the guarantee.

Chartwell and its joint venture partners have jointly and severally guaranteed CMHC - insured loans on three properties to a maximum amount of \$48,324.

### **25. Subsequent events:**

Subsequent to December 31, 2010, Spectrum sold its interests in two properties to third parties and repaid its mezzanine loans to Chartwell totalling \$7,587 in cash.

Subsequent to December 31, 2010, the Trust purchased a parcel of development land in Hamilton, Ontario for cash consideration of \$1,850.

### **26. Comparative figures:**

Certain 2009 figures have been reclassified to conform with the financial statement presentation adopted in 2010.