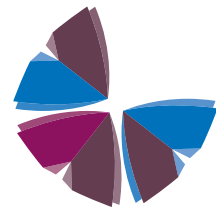


Annual Report 2012



CHARTwell
retirement residences

Highlights of Consolidated Results of Operations

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In thousands of Canadian dollars, except per unit amounts

Years ended December 31	2012	2011
Same property occupancy	90.3%	89.5%
Same property net operating income ("NOI")	208,057	197,625
Adjusted funds from operations ("AFFO") ⁽¹⁾	111,554	86,530
AFFO per unit diluted ⁽¹⁾	0.66	0.59
Funds from operations ("FFO") ⁽¹⁾	124,157	96,447
FFO per unit diluted ⁽¹⁾	0.73	0.66
Distributions declared	90,700	78,446
Distributions declared per unit	0.54	0.54
Distributions declared as percentage of AFFO	81.3%	90.7%

⁽¹⁾ Refer to the "Key Performance Indicators" section of the Management's Discussion and Analysis ("MD&A") contained in the Financial Report section of this Annual Report for a discussion of the nature of various adjustments made in the calculation of AFFO, FFO and per unit amounts.

Corporate Overview



“Who we are and what we do”

Chartwell is a real estate investment trust that owns and operates retirement residences in Canada and in the United States. We are one of the largest participants in the seniors housing business in North America. With a strong management team in place, and over 13,500 employees across Canada, our vision is a singular and shared focus on “Making People’s Lives Better.” Our aim is to deliver on that commitment by providing quality care and a wide range of services to our residents, offering peace of mind to their families and creating a rewarding work environment for our employees, while building long-term value for our investors.





Corporate Social Responsibility at Chartwell

“Trust Through Accountability”

Our goal in creating and reporting on our corporate social responsibility (“CSR”) is to make ourselves accountable and to continually seek ways to make a difference in the lives of the people we serve.

We have selected five key benchmarks by which our CSR measures both our commitments and progress annually: Employee Engagement, Resident Experience, Environmental Stewardship, Corporate Governance and Community Investment.

To view our annual CSR objectives and results, please visit:
chartwell.com/about/CSR/highlights



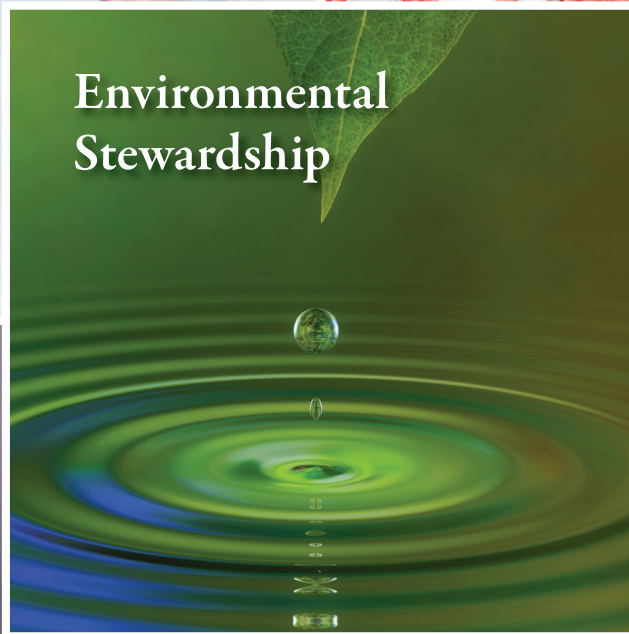
Employee
Engagement



Resident
Experience



Environmental
Stewardship



Corporate
Governance



Community
Investment





Message from the President and CEO*

*“Chartwell: A strong future built on 10 years
of strategic growth”*

This November, we will celebrate our 10 year anniversary. Since the launch of our Initial Public Offering (“IPO”) on November 23, 2003, we’ve grown from our original 45 homes to over 230 retirement and long term care homes across North America. With over 24,000 suites in the four provinces in which we operate - Ontario, Quebec, British Columbia and Alberta - we are the largest owner and operator of retirement living in Canada and a respected name in the delivery of quality care and services to seniors.

We’re proud of what we’ve accomplished over the past decade and we acknowledge that we’ve learned much along the way. While we began as a company with a greater focus on our real estate assets, we have evolved over the past decade to become a customer-centric business, with a strong internal culture, that is enhanced by the value of our real estate holdings.

In light of the positive demographic trends ahead as well as the strength of our position following the 2012 acquisition of the Maestro portfolio and our partnership with Health Care REIT, we see ourselves in the midst of an organization-wide transformation process that will position us for continued success well into the next decade.



We will achieve this success through strategic enhancements to our programs and processes that will allow us to continue as the most influential owner and operator in Canada. These investments and strategic initiatives include national rebranding, improvements to information technology and information systems, enhanced training of staff, and the expansion and innovation of service offerings to our residents. Additionally, we will continue to integrate progressive sales and marketing strategies, both in our residences and through a robust web approach, designed to support seniors and their families through the decision-making process. We believe that together, these enhancements will position us to capitalize on favourable demographics, increase occupancies and allow us fulfill our vision of “Making People’s Lives Better.”

Ultimately, our goal is to deliver on our core strategic priorities and to live up to the important commitments we’ve made to our residents, employees and unitholders. In my view, we have never been better positioned to achieve this goal.

Brent Binions
President and CEO

**This Message from the President and CEO contains forward-looking information. Please see the “Forward-Looking Information and Risks and Uncertainties” section of the MD&A contained in the Financial Report Section of this Annual Report.*



**Making
People's Lives
BETTER**



2012
Finalized settlement
with Spectrum

2011
Adoption of new vision of
"Making People's Lives Better"

2011
Acquisition of interests in 17 properties, including
ING's interests in 15 properties in the U.S.

2010
Acquisition of interests in 20 properties, including ING's
interests in 14 properties in Canada and the U.S.

2008
Consolidation of ownership
and management of the
Quebec portfolio

2007
Acquisition of interests in 72 properties, including
8 LTC properties in partnership with ING

2006
Acquisition of interests in
37 properties in Canada
and the U.S.

2004
Acquisition of interests in 32 properties.
Partnership with Groupe Melior in Quebec

2013
Rebranding as Chartwell Retirement Residences
and introduction of new logo

2012
Acquisition of interests in 42 properties in
partnership with Health Care REIT

2011
Brookdale Senior Living becomes manager of
our U.S. properties

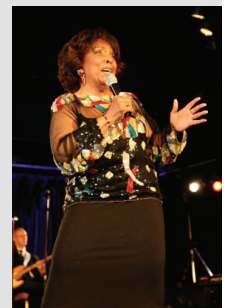
2010
Publication of the book
"HONOUR"



2009
Acquisition of interests in 6 properties from Spectrum

2008
Introduction of RESPECT values

2007
Launch of Senior Star;
Hazel Procter of Calgary, Alberta,
named Canada's first Senior Star



2005
Acquisition of interests in 28 properties. Entering
the U.S. market in partnership with ING

2003
IPO, 45 properties



RESPECT

Financial Report

For the Years Ended December 31, 2012 and 2011

Management's Discussion And Analysis Of Results Of Operations And Financial Condition

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Management's Discussion and Analysis

Of Results of Operations and Financial Condition
For the years ended December 31, 2012 and 2011

Chartwell Retirement Residences ("Chartwell" or the "Trust") has prepared the following management's discussion and analysis (the "MD&A") to provide information to assist its current and prospective investors' understanding of the financial results of Chartwell for the years ended December 31, 2012 and 2011. This MD&A should be read in conjunction with Chartwell's audited, consolidated financial statements for the years ended December 31, 2012 and 2011 and the notes thereto (the "Financial Statements"). This material is available on Chartwell's website at www.chartwell.com. Additional information about Chartwell, including its Annual Information Form ("AIF") for the year ended December 31, 2012, can be found on SEDAR at www.sedar.com.

The discussion and analysis in this MD&A is based on information available to management as of March 6, 2013.

All references to "Chartwell", "we", "our", "us" or the "Trust", unless the context indicates otherwise, refer to Chartwell Retirement Residences and its subsidiaries. For ease of reference "Chartwell" and the "Trust" are used in reference to the ownership and the operation of retirement and long term care communities and the third-party management business of Chartwell. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; "Q4" refers to the three-month period ended December 31; "2013" refers to the calendar year 2013; "2012" refers to the calendar year 2012; "2011" refers to the calendar year 2011 and "YTD" means year-to-date.

Unless otherwise indicated, all comparisons of results for 2012 are in comparison to results from 2011 and all comparisons of results for Q4 2012 are in comparison to Q4 2011.

In this document we use a number of key performance indicators such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI"), Interest Coverage Ratio, Indebtedness Ratio and others. These key performance indicators are not defined by International Financial Reporting Standards ("IFRS") and may not be comparable to similar measures presented by other trusts or other companies. Please refer to the "Key Performance Indicators" section of this MD&A for details of each of these performance indicators.

All dollar references, unless otherwise stated, are in Canadian dollars. Amounts in United States dollars are identified as U.S.\$.

Business Overview

Chartwell is an open-ended real estate investment trust established under the laws of the Province of Ontario. We indirectly own and manage a portfolio of seniors housing communities across the complete continuum of care, from independent supportive living (“ISL”) communities, through assisted living (“AL”) communities, to long term care (“LTC”) communities, all of which are located in Canada and the United States (“U.S.”).

Our Vision is... *making people’s lives BETTER*

Our Mission is...

- to be the most trusted name in seniors housing;
- to provide accommodation, care and services in every home, reflective of our residents’ needs, preferences and interests, and adapt as they evolve;
- to ease the transition through the various stages of aging by providing a full continuum of care in the markets we serve;
- to provide comfort and assurance to the families of our residents that their loved ones are treated with the highest level of care, compassion and respect;
- to attract and retain the best employees by providing a rewarding and fulfilling work environment; and
- to generate reliable, sustainable and growing distributions for our unitholders.

Our Values are...

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

Trust – We believe in keeping our promises and doing the right thing

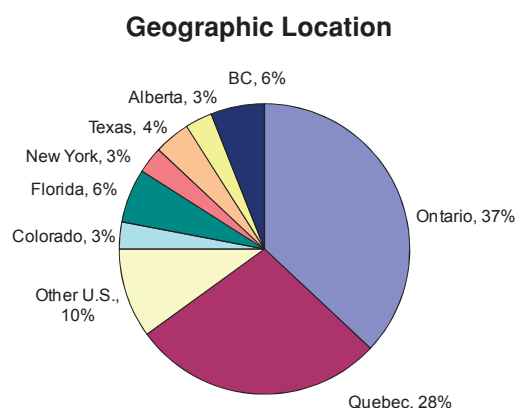
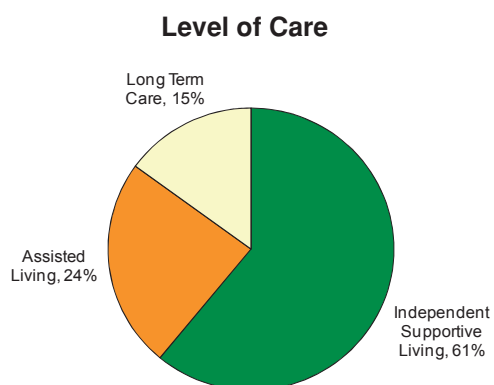
At December 31, 2012, our portfolio of seniors housing communities owned, leased or managed on behalf of others consisted of interests in 32,460 suites in 236 communities. At December 31, 2012, our portfolio of owned and leased communities consisted of interests in 31,213 suites in 227 communities.

The following is the composition of our owned, leased and managed portfolio of seniors housing communities in our three operating segments at December 31, 2012:

	Canadian Retirement Operations		Canadian Long Term Care Operations		United States Operations		Total	
	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds	Communities	Suites/Beds
Owned Properties: ⁽¹⁾								
100% Owned								
Operating	102	11,926	24	3,124	44	6,188	170	21,238
Development suites in lease-up	3	340	-	-	-	-	3	340
Total 100% Owned	105	12,266	24	3,124	44	6,188	173	21,578
Partially Owned ^{(2) (3)}								
Operating	47	8,634	-	-	5	768	52	9,402
Total Partially Owned	47	8,634	-	-	5	768	52	9,402
Total Owned	152	20,900	24	3,124	49	6,956	225	30,980
Properties under Operating Lease:								
100% Interest								
	-	-	-	-	2	233	2	233
Total Leased	-	-	-	-	2	233	2	233
Total Owned and Leased	152	20,900	24	3,124	51	7,189	227	31,213
Managed Properties								
	5	639	4	608	-	-	9	1,247
Total	157	21,539	28	3,732	51	7,189	236	32,460

- (1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.
- (2) We have a 50% ownership interest in these properties with the exception of one Canadian property in which we have a 33.3% ownership interest.
- (3) Five partially-owned U.S. communities (768 suites) are classified as assets held for sale in our financial statements and were sold in February 2013.

Composition of Portfolio of Owned and Leased Suites at Chartwell's Share of Ownership or Leased Interest, at December 31, 2012 by:



Business Strategy

Our business strategy is principally focused on providing quality care and services to our residents, which we believe will help us to grow AFFO from our core property portfolio over time. The following summarizes our key strategic objectives:

Enhance the quality of our cash flows and grow core property AFFO by:

- Providing high quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Investing in innovative marketing and sales programs to increase customer traffic, sales closing ratios and occupancy.
- Managing rental rates to ensure our properties are competitively positioned in the marketplace.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.

Improve information management and operating processes by:

- Investing in market and customer research to support our investments in new properties and to better tailor service offerings to our residents.
- Implementing information technology (“IT”) solutions to improve operating efficiencies and better communicate with our employees.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.

Build value of our real estate portfolio by:

- Maintaining our asset management program to ensure each asset is used to its highest potential.
- Maintaining a development program with up to five new development projects per year.
- Sourcing accretive acquisitions of newer properties in our existing markets.
- Divesting non-core assets.

Maintain a strong financial position by:

- Staggering debt maturities over time to reduce financing risks.
- Financing our properties with long-term debt, while managing interest costs.
- Gradually reducing our debt levels to our targeted range over time.

Successfully integrate the Maestro portfolio acquisition by:

- Hiring key management personnel.
- Executing on training and communication strategies.
- Consolidating and centralizing IT and financial processes.
- Capitalizing on synergies and economies of scale.
- Implementing our best practices while capturing benefits from select creative initiatives from the acquired portfolio.

The following summarizes the progress we made in executing our strategy to date:

<p>Enhance the quality of our cash flows and grow core property AFFO</p>	<ul style="list-style-type: none"> • AFFO increased by \$25.0 million or \$0.07 per unit diluted in 2012 compared to 2011. • Same property NOI improved by \$10.4 million or 5.3% in 2012. • Same property occupancy improved to 90.3% in 2012 from 89.5% in 2011.
<p>Improve information management and operating processes</p>	<ul style="list-style-type: none"> • Completed implementation of a new financial consolidation system in July 2012. • Completed full centralization of accounting and finance functions in Mississauga support office in October 2012. • Completed the implementation of core financial system in January 2013.
<p>Build value of our real estate portfolio</p>	<ul style="list-style-type: none"> • Opened two new retirement residences (212 suites) in Ontario in March 2012 and one LTC community (128 suites) in British Columbia in November 2012. • Four development/redevelopment projects (354 suites) are in progress for completion in 2013. • Closed the Maestro portfolio acquisition in May 2012. • Divestiture of five U.S. properties closed in February 2013. • New, dedicated resources allocated to management of our commercial real estate, energy saving initiatives, and asset management and operational oversight of our U.S. portfolio.
<p>Maintain a strong financial position</p>	<ul style="list-style-type: none"> • Interest Coverage Ratio improved to 2.00 in 2012 from 1.91 in 2011. • Indebtedness Ratio improved to 57.9% at December 31, 2012, from 59.3% at December 31, 2011. • Completed the public offering of subscription receipts and convertible debentures for \$339.3 million.
<p>Integrate the Maestro portfolio acquisition</p>	<ul style="list-style-type: none"> • Operating performance is ahead of expectations. • Significant new talent added to our management team. • Integration activities are largely completed.

2013 Outlook ♦

The following summarizes our outlook for 2013 for the markets in which we operate:

Canadian Retirement Operations

We anticipate generating moderate growth through rate and occupancy increases in our Canadian Retirement Operations segment, supported by improving economic conditions and slower supply growth. The potential slowdown in the Canadian housing market may have a temporary negative effect on our occupancies as our prospective residents would need to adjust to somewhat lower sale prices of their primary residences. However, we believe such negative impact, if any will be short term in nature. In the summer of 2012, we implemented a limited-time promotional campaign in some of our homes. This promotion impacted our revenue growth in Q4 2012 and will impact Q1 2013 revenues.

We expect that our innovative sales and marketing programs will continue to generate increased sales activities and as a result, increasing occupancy. We will also continue our focus on generating additional revenues by offering more care and other services to our residents. The following summarizes our expectations:

- In Ontario, we anticipate average rental rates to increase between 3.5% and 4.0% in 2013. Our Ontario same property portfolio occupancy grew to 90.0% in Q4 2012. Subject to seasonal fluctuations, we expect to see continuing positive occupancy trends in Ontario in 2013, driven by a slower pace of growth in inventory of seniors housing units, stable economic conditions and our continuing focus on sales, marketing and branding initiatives as well as our short-term stay programs.
- In Western Canada, we anticipate average rental rates to increase between 3.0% and 4.5% in 2013. In 2012, our Western Canada same property portfolio demonstrated consistent occupancy growth achieving 92.2% occupancy in Q4 2012. We expect to see continuing gradual occupancy growth in our Western Canada platform in 2013.
- In Quebec, we expect average rental rates to increase between 2.5% and 3.0% in 2013. Our Quebec same property portfolio occupancy achieved 88.3% in Q4 2012, a 2.2 percentage point growth from 86.1% in Q4 2011. Our properties in the competitive Aylmer and Gatineau/Hull markets contributed substantially to this growth. Subject to seasonal fluctuations we expect to see continuing gradual occupancy growth in our Quebec platform in 2013.

Canadian Long Term Care Operations

In 2012, our Canadian LTC same property portfolio NOI grew by 4.4%, driven by disciplined management of expenses and increases in government funding and resident rates for preferred accommodation. Our occupancies remain high at 98.6%. We expect occupancies to remain high in 2013 as there are approximately 19,800 people on the waiting list for LTC accommodation in Ontario.

U.S. Operations

Although uncertainties in the U.S. political environment and government fiscal constraints create certain risks, it appears that some economic recovery, including job creation and housing market improvements, is under way. We expect that favourable seniors housing supply-demand conditions will continue in 2013, as the pace of new construction remained slow over the past several years. Although new construction starts increased in 2012, the level of these increases is reasonable in light of the current demographic trends.

♦ This section contains forward-looking information. Please see the "Forward-Looking Information and Risks and Uncertainties" section in this MD&A.

In the U.S., we anticipate average rental rates will increase between 3.0% and 3.5% in 2013. Continuing previous positive trends, occupancies in our U.S. same property portfolio improved in Q4 2012, to 91.2% from 90.0% in Q4 2011. Due to this occupancy growth and as a result of strong expense management practices and purchasing power of our manager, Brookdale Senior Living (“Brookdale”), our same property portfolio delivered a 10.0% same property NOI growth in 2012. We expect to see gradual occupancy and NOI growth in our U.S. portfolio in 2013.

General, Administrative and Trust Expenses

As a result of the significant increase in our property portfolio with the completion of the Maestro portfolio acquisition in 2012, we have been adding a number of management personnel and related costs to support such growth. We expect to complete this process in Q1 2013. We will also continue to invest in improvements to our information management systems. These increases in our general, administrative and trust (“G&A”) expenses are more-than-offset by management fees from the acquired Maestro portfolio.

Development

The redevelopment of 35,000 LTC beds in Class B and Class C communities is required by the government of Ontario over the next 10 years, and capital funding program is available for this renewal initiative. We have 12 Class B and Class C communities in Ontario with a total of 1,166 LTC beds that will be able to access this redevelopment program. In 2013, we expect to complete redevelopment of three of these communities currently under construction. We intend to proceed with redevelopment of the remaining LTC communities subject to availability of sufficient funding to make such redevelopments economically viable.

In 2013 we expect to open a 119-suite retirement residence in Hamilton, Ontario which is presently under construction. We also identified a number of other development opportunities, including intensification of some of our existing sites, and expect to commence several of these projects in 2013 and in 2014. In addition, we continue to investigate a number of other opportunities to fill our pipeline of future development projects.

Acquisitions

In 2012 we acquired interests in 41 properties (7,829 suites). We are actively seeking opportunities to acquire newer properties on an accretive basis in geographic regions in which we already operate.

Dispositions

In Q1 2013, we completed the sale of our interest in a five-property portfolio (768 suites) located in New York State (the “Bristol Portfolio”). Our strategy continues to be to concentrate our U.S. holdings in the three core states of Florida, Texas and Colorado and, over time, sell our properties located in other states. We will continue to work to advance this program throughout 2013. In addition, as part of our asset review program, we may dispose of other select properties that do not fit into our long-term strategy.

Taxation

In 2012 we completed the Maestro portfolio acquisition, implemented an internal reorganization to simplify our corporate structure and settled with Spectrum Seniors Holdings LP (“Spectrum”) on certain mezzanine loans and other amounts due. As a result, in 2012 the taxable portion of our distributions to unitholders was higher than in prior years. In 2012, 83.2% of our distributions were classified as return of capital, 3.8% as foreign-source interest income and 13.0% as other income. We were not subject to cash SIFT taxes in 2012 and based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2013 and 2014.

Significant Events

The following events have had a significant effect on our financial results in 2012 and may be expected to affect our results in the future.

Public Offering of Trust Units and Convertible Debentures

On March 9, 2012, we completed the offering (the "Offering") of \$135.0 million aggregate principal amount of 5.7% convertible debentures, maturing on March 31, 2018, and 24,913,125 subscription receipts at \$8.20 per subscription receipt. The net proceeds of the Offering, after underwriters' commissions and other offering costs, was \$325.3 million and was used to repay amounts outstanding on our secured revolving operating credit facility ("Credit Facility"), to redeem all of the issued and outstanding \$75.0 million aggregate principal amount of 5.9% convertible debentures which occurred on March 16, 2012, and to fund our share of the net purchase price of the Maestro portfolio acquisition, including acquisition related expenses. Upon closing of the Maestro portfolio acquisition on May 1, 2012, the subscription receipts were converted into Trust Units.

Acquisitions in 2012

During Q1 2012, we purchased the 70-suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum and their joint-venture partner. The purchase price was \$15.5 million, not including closing costs, and was settled through the assumption of debt of \$11.4 million, settlement of an outstanding mezzanine loan of \$0.9 million, settlement of outstanding accounts receivable of \$0.9 million, with the remaining balance, net of working capital adjustments, paid in cash.

During Q2 2012, we acquired a 50% interest in the 97-suite Renaissance Retirement Residence in Kamloops, British Columbia, from Spectrum. The purchase price was \$7.5 million and was settled through the assumption of debt of \$4.7 million, settlement of the mezzanine loan of \$0.7 million, settlement of accounts receivable of \$0.8 million, and the balance, net of working capital adjustments, paid in cash.

On May 1, 2012, we completed the Maestro portfolio acquisition in co-ownership with Health Care REIT, Inc. ("HCN"). Chartwell and HCN each acquired a 50% undivided interest in 39 properties with 7,662 suites (the "Chartwell-HCN Properties"). HCN acquired 100% interest in three additional properties with 525 suites. We retain an option to acquire a 50% interest in these three properties at the amount equal to the higher of fair market value or HCN's investment in these properties. We manage all 42 properties. The aggregate purchase price for the Chartwell-HCN Properties was \$843.8 million before mark-to-market adjustments, and was settled by Chartwell and HCN through the assumption of debt of \$449.8 million with the balance, net of working capital adjustments, paid in cash.

The following tables summarize acquisitions completed in 2012:

(\$millions, except communities and suites/beds)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012
Number of communities	1	40 ⁽²⁾	-	-	41
Number of suites/beds	70	7,759 ⁽²⁾	-	-	7,829
Purchase price (including closing costs)	15.8	440.8	-	-	456.6
<i>Financed as follows:</i>					
Mortgage debt assumed	11.4	229.6	-	-	241.0
Discharge of mezzanine loans receivable	0.9	0.7	-	-	1.6
Settlement of accounts receivable	0.9	0.8	-	-	1.7
Cash	2.3	198.3	-	-	200.6
Acquisition costs ⁽¹⁾	0.3	11.4	-	-	11.7
Total	15.8	440.8	-	-	456.6

(1) Under IFRS, these costs are expensed as incurred.

(2) We have a 50% ownership interest in these properties.

Dispositions

During Q2 2012, we entered into an agreement, along with our joint-venture partner, to sell the Bristol Portfolio, which closed in February 2013. The sale price for 100% of the Bristol Portfolio was U.S.\$290.0 million and was partially settled through the purchaser's assumption of debt of U.S.\$197.7 million, with the balance, net of working capital adjustments and holdbacks, received in cash. We owned a 50% interest in the Bristol Portfolio.

Development Activities

In March 2012, we opened two new retirement residences in Kitchener and Oshawa, Ontario (212 suites) and lease-up is progressing well.

In November 2012, we substantially completed redevelopment of the Carlton Gardens LTC community in Burnaby, British Columbia with 128 beds.

Our goal is to maintain an active development program by commencing up to five new projects per year. The following projects are now in progress:

Project	Location	Suites / Beds	Development Costs ⁽¹⁾ (\$millions)	Estimated Construction Completion Date	Details
Chateau Gardens Aylmer LTC	Aylmer, ON	64	9.5	Q2 2013	Redevelopment of an existing 60-bed Class C LTC property into a 64-bed Class A LTC property.
Chateau Gardens Parkhill LTC	Parkhill, ON	64	10.7	Q3 2013	Redevelopment of an existing 59-bed Class C LTC property into a 64-bed Class A LTC property.
Pine Grove LTC	Woodbridge, ON	107	13.6	Q4 2013	Redevelopment of an existing 100-bed Class C LTC and 40-suite retirement residence into a 96-bed Class A LTC and 11-suite retirement residence.
Deerview Crossing	Hamilton, ON	119	32.3	Q4 2013	New retirement residence with a 28-suite dedicated AL area.
		354	66.1		

(1) Includes estimated results of operations during lease-up period which are recorded in profit and loss as incurred under IFRS.

Spectrum Settlement

In October 2012, we received a payment of \$16.6 million from Spectrum in full settlement of its obligations to Chartwell (the "Spectrum Settlement"). Upon receipt of this payment, the development agreement between Spectrum and Chartwell was terminated and the parties provided full and final releases to each other with respect to their obligations under various settlements, mezzanine loans and management and development agreements. As a result of this transaction, in Q4 2012, we recorded a reduction in carrying balances of mezzanine loans receivable of \$4.4 million, a reversal of previously-recorded impairment provisions of \$9.4 million and mezzanine loan interest, management fee income, settlement fee income and reimbursement of certain expenses of \$2.8 million.

Highlights of Consolidated Results of Operations

The following table summarizes selected financial and operating performance measures:

(\$000s, except occupancy rates, per unit amounts and number of units)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Property revenue	230,393	198,274	32,119	874,503	750,634	123,869
Weighted average occupancy rate - same property portfolio ⁽¹⁾	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp
Same property NOI ⁽²⁾	51,615	49,809	1,806	208,057	197,625	10,432
AFFO ^{(3) (4) (5)}	30,104	22,036	8,068	111,554	86,530	25,024
AFFO per unit basic	0.17	0.15	0.02	0.66	0.59	0.07
AFFO per unit diluted ⁽⁶⁾	0.17	0.15	0.02	0.66	0.59	0.07
FFO ^{(5) (7)}	33,421	24,792	8,629	124,157	96,447	27,710
FFO per unit basic	0.19	0.17	0.02	0.74	0.66	0.08
FFO per unit diluted ⁽⁶⁾	0.19	0.17	0.02	0.73	0.66	0.07
Distributions declared ⁽⁸⁾	23,329	19,714	3,615	90,700	78,446	12,254
Distributions declared per unit ⁽⁹⁾	0.14	0.14	-	0.54	0.54	-
Distributions declared as a percentage of AFFO	77.5%	89.5%	(12.0pp)	81.3%	90.7%	(9.4pp)
Net loss for the period	(38,554)	(25,249)	(13,305)	(139,342)	(63,331)	(76,011)

(1) *pp = percentage points.*

(2) *Excludes the effects of foreign exchange on U.S. dollar revenue.*

(3) *Refer to the "Non-IFRS Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO and AFFO per unit diluted calculations.*

(4) *Includes \$0.5 million and \$2.8 million in negative AFFO incurred on properties in lease-up in Q4 2012 and 2012, respectively (\$0.3 million and \$0.5 million in Q4 2011 and 2011, respectively).*

(5) *Excludes the reversal of provisions for impairment of mezzanine loans and accounts receivable of \$9.4 million recorded in Q4 2012.*

(6) *Includes dilutive impact of conversion of convertible debentures into Trust Units.*

(7) *Refer to the "Non-IFRS Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net loss and calculations of FFO per unit diluted.*

(8) *Includes distributions declared on Trust Units and distributions on Class B Units of Chartwell Master Care LP ("Class B Units") and subscription receipts recorded as interest expense.*

(9) *Refer to the "Key Performance Indicators – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.*

In 2012, AFFO excluding the reversal of a provision for impairment of mezzanine loans and accounts receivable, was \$111.6 million or \$0.66 per unit diluted. This represents an increase of \$25.0 million or 28.9% compared to 2011 AFFO of \$86.5 million or \$0.59 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from our property portfolio of \$40.7 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$4.6 million, primarily due to fees generated from the Maestro properties acquired in 2012, and higher fees collected as a result of the Spectrum Settlement;

Offset by:

- Higher G&A expenses of \$1.4 million incurred to support significant growth in our property portfolio;
- Higher interest expense of \$16.6 million, primarily due to acquisitions in 2011 and 2012; and
- Higher negative AFFO on properties in lease-up of \$2.3 million.

Per unit amounts were also impacted by dilution from the issuance of Trust Units in connection with the Offering and the dilutive effect of the \$135.0 million aggregate principal amount of 5.7% convertible debentures.

Fourth Quarter: In Q4 2012, AFFO was \$30.1 million or \$0.17 per unit diluted. This represents an increase of \$8.1 million or 36.6% compared to Q4 2011 AFFO of \$22.0 million or \$0.15 per unit diluted. The changes in AFFO include the following:

- Incremental contribution from our property portfolio of \$9.5 million, primarily due to acquisitions and same property NOI growth;
- Higher management fee income of \$2.7 million, primarily due to fees generated from the Maestro properties acquired in 2012, and higher fees collected as a result of the Spectrum Settlement;

Offset by:

- Higher capital funding, mezzanine loan interest income and other items combined contributed \$0.6 million;
- Higher G&A expenses of \$1.0 million incurred to support significant growth in our property portfolio;
- Higher interest expense of \$3.5 million, primarily due to acquisitions in 2011 and 2012; and
- Higher negative AFFO on properties in lease-up of \$0.2 million.

Per unit amounts were also impacted by dilution from the issuance of Trust Units in connection with the Offering and the dilutive effect of the \$135.0 million aggregate principal amount of 5.7% convertible debentures.

In 2012, FFO increased by \$27.7 million or 28.7% to \$124.2 million or \$0.73 per unit diluted compared to 2011 FFO of \$96.4 million or \$0.66 per unit diluted. In addition to the items noted in the discussion of AFFO above, FFO was also impacted by changes in amortization of financing costs and debt mark-to-market adjustments.

For Q4 2012, FFO was \$33.4 million or \$0.19 per unit diluted compared to Q4 2011 of \$24.8 million or \$0.17 per unit diluted.

Net loss in 2012 was \$139.3 million compared to a net loss in 2011 of \$63.3 million. In addition to items which impacted AFFO and FFO as discussed above, net loss amounts were also impacted by depreciation of properties, amortization of limited life intangibles totalling \$203.9 million combined, impairment of property, plant and equipment ("PP&E") of \$21.2 million, transaction costs on acquisitions and dispositions of \$13.0 million, issuance costs of convertible debentures of \$5.4 million, changes in fair value of financial instruments of \$49.4 million, deferred tax benefit of \$22.0 million and other items.

Refer to the "Key Performance Indicators" section of this MD&A for a discussion of the calculation of AFFO, FFO and per unit amounts.

Same Property Portfolio Highlights

(\$000s, except occupancy rates)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Canadian retirement:						
NOI	31,109	30,939	170	128,108	123,678	4,430
Occupancy	89.7%	88.3%	1.4pp	88.3%	87.6%	0.7pp
Canadian LTC:						
NOI	6,598	6,230	368	25,441	24,379	1,062
Occupancy	98.9%	98.8%	0.1pp	98.6%	98.5%	0.1pp
U.S.:						
NOI (U.S.\$)	13,908	12,640	1,268	54,508	49,568	4,940
Occupancy	91.2%	90.0%	1.2pp	90.1%	88.5%	1.6pp
Combined:						
NOI ⁽¹⁾	51,615	49,809	1,806	208,057	197,625	10,432
Occupancy	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp

(1) Excludes the effects of foreign exchange on the U.S. dollar.

For 2012, combined same property occupancy improved to 90.3% with same property NOI increasing \$10.4 million or 5.3% as follows:

- In our Canadian retirement portfolio, same property NOI increased 3.6%, primarily as a result of occupancy improvements, increased ancillary revenues, rental rate increases in line with competitive market conditions and strong expense controls, offset by higher move-in incentives. 2012 occupancy improved to 88.3% compared to 87.6% in 2011.
- In our Canadian LTC portfolio, same property NOI improved \$1.1 million or 4.4% primarily due to higher government funding, preferred resident accommodation rate increases and strong expense controls. Occupancy remained high at 98.6% compared to 98.5% in 2011.
- In our U.S. portfolio, same property NOI increased 10.0%, primarily due to higher revenues as a result of improved occupancy and expense savings. Occupancy improved to 90.1% in 2012 from 88.5% in 2011.

Fourth Quarter: For Q4 2012, combined same property occupancy improved to 91.5% with same property NOI increasing \$1.8 million or 3.6% as follows:

- In our Canadian retirement portfolio, same property NOI increased 0.5%, primarily as a result of strong occupancy improvements and increased ancillary revenues, offset by higher move-in incentives. These incentives will continue impacting our revenues in Q1 2013.
- In our Canadian LTC portfolio, same property NOI increased 5.9%, primarily due to higher government funding and strong expense controls. Occupancy improved slightly to 98.9% in Q4 2012 compared to 98.8% in Q4 2011.
- In our U.S. portfolio, same property NOI increased 10.0%, primarily due to higher revenues as a result of improved occupancy and savings in controllable expenses. Occupancy improved to 91.2% in Q4 2012 from 90.0% in Q4 2011.

Consolidated Results of Operations

Summary of Property Revenue

(\$000s, except occupancy rates)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Same property ⁽¹⁾	176,134	171,687	4,447	690,838	668,335	22,503
Acquisitions and other ⁽¹⁾	54,788	25,618	29,170	183,834	84,412	99,422
Foreign exchange on U.S. dollar revenue	(529)	969	(1,498)	(169)	(2,113)	1,944
Total property revenue	230,393	198,274	32,119	874,503	750,634	123,869
Weighted average occupancy rate - same property portfolio	91.5%	90.3%	1.2pp	90.3%	89.5%	0.8pp
Weighted average occupancy rate - total portfolio	89.5%	89.7%	(0.2pp)	88.6%	88.8%	(0.2pp)

(1) Excludes the effect of foreign exchange on U.S. dollar revenue.

Total property revenue grew 16.5% in 2012 through increased revenue from our same property and acquisitions portfolios.

Same property revenue increased \$22.5 million or 3.4% for 2012. We continue to drive revenue growth by offering new additional services for our residents, improving occupancies through investments in innovative sales and marketing initiatives and implementing rental rate increases that are competitive to local market conditions.

Fourth Quarter: Total property revenue grew 16.2% in Q4 2012, through increased revenue from our same property and acquisitions portfolios.

Same property revenue increased \$4.4 million or 2.6% for Q4 2012 primarily as a result of occupancy improvements, higher ancillary services revenue and increased government funding of our LTC communities, offset by higher move-in incentives in our Canadian retirement portfolio.

Summary of Direct Operating Expenses

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Same property ⁽¹⁾	124,519	121,877	2,642	482,779	470,710	12,069
Acquisitions and other ⁽¹⁾	39,781	19,080	20,701	132,663	62,821	69,842
Foreign exchange on U.S. dollar expenses	(356)	654	(1,010)	(128)	(1,399)	1,271
Total direct operating expenses	163,944	141,611	22,333	615,314	532,132	83,182

(1) Excludes the effect of foreign exchange on U.S. dollar expenses.

Total direct operating expenses increased \$83.2 million or 15.6% in 2012 primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses.

Same property direct operating expenses increased \$12.1 million or 2.6% for 2012 primarily due to additional staffing costs required to provide new services to our residents and to respond to new regulatory requirements in certain jurisdictions, combined with investments in targeted sales and marketing initiatives designed to drive occupancy. We strive to mitigate the inflationary increases in our direct operating expenses by capitalizing on our improved economies of scale and active management of our vendor relationships.

Fourth Quarter: Total direct operating expenses increased \$22.3 million or 15.8% in Q4 2012 primarily due to additional expenses for acquisitions and modest growth in same property direct operating expenses. Same property direct operating expenses increased \$2.6 million or 2.2% for Q4 2012.

General, Administrative and Trust Expenses

(\$000s, except percentage of revenue)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
G&A expenses	6,385	5,331	1,054	25,361	22,494	2,867
Severance costs	805	867	(62)	805	2,264	(1,459)
Total G&A	7,190	6,198	992	26,166	24,758	1,408
As % of revenue (excluding severance costs)	2.7%	2.7%	-	2.9%	3.0%	(0.1pp)

G&A expenses, excluding severance costs, increased \$2.9 million or 12.7% in 2012. Growth in G&A expenses is primarily related to costs incurred to support significant growth in our Canadian property portfolio in 2012.

In 2012 we incurred severance costs of \$0.8 million primarily related to the departure of certain executives and the restructuring of our operations support functions, including centralization of accounting and finance in our Mississauga office.

In 2011, severance costs related to the departure of two senior executives and a result of the decision to contract out certain services at one of our properties.

G&A expenses, excluding severance costs, as a percentage of revenue, were 2.9% in 2012.

Fourth Quarter: G&A expenses, excluding severance costs, increased \$1.1 million or 19.8% in Q4 2012 primarily due to costs incurred to support significant growth in our Canadian property portfolio.

G&A expenses, as a percentage of revenue, were 2.7% in both Q4 2012 and Q4 2011.

Management Fee Revenue

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
HCN	1,327	-	1,327	3,519	-	3,519
Spectrum	1,655	240	1,415	1,976	702	1,274
ING	26	23	3	122	234	(112)
Other	521	546	(25)	2,108	2,201	(93)
Total management fee revenue	3,529	809	2,720	7,725	3,137	4,588

Management fee revenue increased \$4.6 million in 2012, of which \$3.5 million represents HCN's share of management fees related to the Maestro portfolio acquired in 2012. Under our management agreement for these newly-acquired properties, we are entitled to operations management fees of 5% of gross revenues, which could be increased to up to 6% of gross revenues, or decreased no lower than 4% of gross revenues upon exceedance or failure to achieve agreed-upon operating results, respectively. In addition, we are entitled to capital project oversight fees of between 3% and 7% of the value of the capital project, depending on the size of the project. Only HCN's share of these fees is reported as management fee revenue. The portion of fees related to our ownership in the joint venture properties is offset against G&A expenses, or capital cost of the assets, on consolidation, as applicable.

As discussed under the "Significant Events" section of this MD&A, in October 2012 we entered into the Settlement Agreement with Spectrum and therefore, we no longer manage any Spectrum properties.

Fees from ING relate to the jointly-owned Bristol Portfolio, which was sold in Q1 2013.

Fourth Quarter: Management fee revenue increased \$2.7 million in Q4 2012 primarily due to HCN's share of management fees related to the Maestro portfolio acquired in 2012, and the collection of fees from Spectrum in connection with entering into the Settlement Agreement.

Mezzanine Loans

The following table summarizes the changes in our investments in mezzanine loans for 2012 and 2011:

(\$millions)	2012	2011
Gross mezzanine loans outstanding (beginning of the period)	23.2	44.2
Discharge of mezzanine loans on acquisition of properties	(1.6)	(2.1)
Repayments of mezzanine loans in cash	(15.2)	(8.2)
Written off	-	(10.7)
Gross mezzanine loans outstanding (end of the period)	6.4	23.2
Fees recorded as a reduction of mezzanine loan balances	(0.4)	(0.5)
Impairment provision	(6.0)	(13.1)
Total carrying value	-	9.6

As discussed under the "Significant Events" section of this MD&A, in October 2012 we entered into the Settlement Agreement with Spectrum and as a result, our mezzanine loans are now limited to loans on three properties totalling \$6.4 million, with the carrying balance of nil.

In 2012, mezzanine loan interest income amounted to \$1.5 million compared to \$1.6 million in 2011.

Finance Costs

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Mortgages and loans payable						
Same property ⁽¹⁾	19,670	20,795	(1,125)	80,479	81,918	(1,439)
Acquisitions and other ⁽¹⁾⁽²⁾	8,211	4,104	4,107	28,354	13,277	15,077
Foreign exchange on U.S. dollar expenses	(104)	181	(285)	(32)	(430)	398
	27,777	25,080	2,697	108,801	94,765	14,036
Convertible debentures	1,961	1,106	855	7,193	4,425	2,768
Credit Facility and other interest ⁽³⁾	672	397	275	2,863	1,499	1,364
	30,410	26,583	3,827	118,857	100,689	18,168
Amortization of financing costs and debt mark-to-market adjustments ⁽⁴⁾	247	720	(473)	1,639	3,037	(1,398)
	30,657	27,303	3,354	120,496	103,726	16,770
Interest capitalized to properties under development	(366)	(336)	(30)	(1,843)	(1,303)	(540)
Distributions on Class B Units recorded as interest expense	227	227	-	909	908	1
Distributions on subscription receipts recorded as interest expense	-	-	-	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Total finance costs	30,518	27,194	3,324	127,167	103,331	23,836

(1) Excludes the effects of foreign exchange on U.S. dollar expenses.

(2) Includes \$0.5 million and \$1.7 million related to properties in lease-up in Q4 2012 and 2012, respectively (\$0.2 million and \$0.3 million in Q4 2011 and 2011, respectively).

(3) 2012 amounts include \$0.4 million relating to a penalty on early extinguishment of a mortgage incurred in Q3 2012.

(4) 2012 amounts include \$0.1 million and \$0.3 million in Q4 2012 and 2012, respectively, relating to amortization of renewal costs of our Credit Facility.

Interest expense on the same property portfolio decreased by \$1.4 million in 2012 due to repayments of certain mortgages during 2012 and lower interest rates achieved on mortgage renewals. Acquisitions

added incremental interest expense of \$15.1 million in 2012 as a result of mortgages assumed on acquisitions completed in 2011 and 2012.

Interest expense on our convertible debentures increased \$2.8 million in 2012. In Q1 2012, we issued a new series of \$135.0 million aggregate principal amount of 5.7% convertible debentures and redeemed all of the issued and outstanding \$75.0 million aggregate principal amount of 5.9% convertible debentures.

During 2012, we capitalized interest of \$1.8 million which relates to our development projects under construction. Interest capitalization stops once a development project becomes available for use.

Under IFRS, distributions paid on subscription receipts upon their conversion to Trust Units, are classified as interest expense. As a result, in Q2 2012, we recorded interest expense of \$2.2 million.

Under IFRS, we have elected to carry our convertible debentures at fair value and as a result, the issuance costs of \$5.4 million relating to the issuance of the \$135.0 million aggregate principal amount of 5.7% debentures were expensed in Q1 2012.

Fourth Quarter: Interest expense on the same property portfolio decreased by \$1.1 million in Q4 2012 due to principal repayments that occurred during the year and lower interest rates achieved on mortgage renewals.

Other (Expense)/Income

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Transaction costs arising on business acquisitions and dispositions	(325)	(653)	328	(12,995)	(1,280)	(11,715)
Interest income on capital funding receivable and bank balances	1,213	962	251	4,180	3,817	363
Gain on sale of assets	37	228	(191)	325	7,556	(7,231)
Impairment of PP&E	(21,203)	(4,580)	(16,623)	(21,203)	(13,080)	(8,123)
Gain on remeasurement of previously-held equity interest on acquisition	-	1,505	(1,505)	-	3,595	(3,595)
Reversal of previously-recorded impairment provisions	9,399	-	9,399	9,399	-	9,399
Total other (expense)/income	(10,879)	(2,538)	(8,341)	(20,294)	608	(20,902)

Transaction costs arising on business acquisitions and dispositions are expensed as incurred and fluctuate from period to period based on the volume of transactions. Transaction costs incurred in 2012 primarily relate to the Maestro portfolio acquisition.

Interest income on capital funding receivable and bank balances increased in 2012 primarily due to new capital funding related to completed phases in the three Ontario LTC communities in redevelopment.

In 2012, the gain on sale of assets primarily relates to the sale of a parcel of land in Quebec for \$0.6 million.

The gain on disposal of properties for 2011 primarily resulted from a gain realized on the disposition of one retirement property in Quebec of \$5.9 million and the net gain arising from the disposal of ownership interest in Horizon Bay Chartwell LLC and Horizon Bay Chartwell II, LLC, and the signing of new management contracts realized on the transition of the management of our U.S. properties to Brookdale, of \$1.8 million.

In 2012, the impairment on PP&E primarily relates to three properties in our Quebec portfolio, whose carrying values exceeded estimated recoverable amounts.

The impairment on non-current assets in 2011 primarily relates to our original 50% interest in a 15-property portfolio in the U.S, of which we acquired the remaining 50% interest in Q4 2011. The purchase price of the second 50% was lower than the carrying value of our original 50% interest and as a result, in Q2 2011, we recorded an impairment provision of \$8.5 million related to our original 50% interest in these properties. In addition, in Q4 2011, we recorded an impairment of approximately \$4.6 million for two properties and certain development projects whose carrying values exceeded estimated recoverable amounts.

In 2011, the gain on the remeasurement of previously-held equity interest on acquisition relates to a remeasurement gain of \$2.1 million on the original 50% interest in Chatsworth Retirement Suites, recorded when the second 50% interest was acquired in Q2 2011. Since this was a step acquisition, we were required to remeasure the original 50% interest to fair value upon acquisition of the second 50% interest. In Q4 2011, the purchase of ING's 50% interest in a 15-property portfolio resulted in a gain on remeasurement of \$1.5 million.

In October 2012, in connection with entering into the Settlement Agreement with Spectrum, we reversed previously-recorded provisions for impairment of mezzanine loans and accounts receivable in the amount of \$9.4 million.

Other Items

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Property lease expense	625	644	(19)	2,504	2,420	84
Depreciation of PP&E	59,182	50,790	8,392	200,383	170,844	29,539
Amortization of limited life intangible assets	671	1,242	(571)	3,537	2,555	982
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	(1,607)	49,379	(2,932)	52,311
Current income tax expense/(benefit)	78	79	(1)	296	330	(34)
Deferred income tax expense/(benefit)	(1,423)	(8,729)	7,306	(21,977)	(14,127)	(7,850)

Depreciation of PP&E increased primarily due to acquisitions completed in 2011 and 2012.

Amortization of limited life intangible assets increased due to acquisitions completed in 2011 and 2012. In Q4 2012, amortization of limited life intangible assets decreased by \$0.6 million as certain intangible assets were fully amortized in prior periods.

Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain) result from changes in the market value of the underlying financial instruments and foreign exchange rate movements. These amounts are expected to fluctuate from period to period due to changes in financial markets. The following table provides a breakdown of these amounts:

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Changes in fair value of convertible debentures	-	1,035	(1,035)	10,725	(450)	11,175
Changes in fair value of interest rate swap	(109)	(143)	34	(456)	(171)	(285)
Unrealized foreign exchange (gain)/loss	(757)	1,004	(1,761)	1,710	(1,322)	3,032
Changes in fair value of LTIP option component	941	(585)	1,526	2,701	(1,981)	4,682
Changes in fair value of Class B Units	1,199	1,597	(398)	4,034	537	3,497
Changes in fair value of DTUs	331	304	27	1,018	455	563
Changes in fair value of subscription receipts	-	-	-	29,647	-	29,647
Loss on exchange of Class B Units	-	-	-	-	-	-
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	(1,607)	49,379	(2,932)	52,311

Under IFRS, subscription receipts issued on March 9, 2012, were required to be recorded as a liability on our balance sheet until May 1, 2012, when the subscription receipts were converted to Trust Units and reclassified to unitholders' equity. We were also required to fair-value this liability. As a result, in 2012 we recorded a \$29.6 million loss related to the change in fair value of these subscription receipts.

The provision for deferred tax expense/(benefit) relates to temporary differences between the carrying amounts and tax-basis of assets and liabilities. These temporary differences are tax-effected using the estimated tax rate applicable to undistributed income at the time that these differences are expected to reverse.

Non-IFRS Measures

FFO and AFFO do not have a standardized meaning under IFRS and should not be construed as an alternative to net earnings or cash flows from operating activities as defined by IFRS.

Refer to the "Key Performance Indicators" section of this MD&A for a detailed discussion of the nature of various adjustments made in the calculation of FFO and AFFO, along with Management's discussion of the usefulness of these measures in evaluating our performance.

Funds from Operations (FFO)

The following table provides a reconciliation of net income/(loss) to FFO:

(\$000s, except per unit amounts)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Net loss for the period	(38,554)	(25,249)	(13,305)	(139,342)	(63,331)	(76,011)
<i>Add (Subtract):</i>						
Depreciation of PP&E	59,182	50,790	8,392	200,383	170,844	29,539
Amortization of limited life intangible assets	671	1,242	(571)	3,537	2,555	982
Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above	(379)	(201)	(178)	(811)	(679)	(132)
Loss/(gain) on disposal of assets	(37)	(228)	191	(325)	(7,556)	7,231
Impairment of PP&E	21,203	4,580	16,623	21,203	13,080	8,123
Gain on remeasurement of previously-held equity interest on acquisition	-	(1,505)	1,505	-	(3,595)	3,595
Transaction costs arising on business acquisitions and dispositions	325	653	(328)	12,995	1,280	11,715
Deferred income taxes	(1,423)	(8,729)	7,306	(21,977)	(14,127)	(7,850)
Distributions on Class B Units recorded as interest expense	227	227	-	909	908	1
Distributions on subscription receipts	-	-	-	2,242	-	2,242
Convertible debenture issuance costs	-	-	-	5,363	-	5,363
Changes in fair value of financial instruments and unrealized foreign exchange gains/losses	1,605	3,212	(1,607)	49,379	(2,932)	52,311
FFO ⁽¹⁾	42,820	24,792	18,028	133,556	96,447	37,109
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
FFO excluding reversal of provision for impairment	33,421	24,792	8,629	124,157	96,447	27,710
FFO	42,820	24,792	18,028	133,556	96,447	37,109
Interest expense on 5.7% convertible debentures	1,960	-	1,960	6,282	-	6,282
Diluted FFO	44,780	24,792	19,988	139,838	96,447	43,391
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
Diluted FFO excluding reversal of provision for impairment	35,381	24,792	10,589	130,439	96,447	33,992
FFO per unit						
Basic	0.25	0.17	0.08	0.79	0.66	0.13
Diluted ⁽²⁾	0.24	0.17	0.07	0.79	0.66	0.13
FFO per unit excluding reversal of impairment provision						
Basic	0.19	0.17	0.02	0.74	0.66	0.08
Diluted ⁽²⁾	0.19	0.17	0.02	0.73	0.66	0.07

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Includes dilutive impact of 5.7% convertible debentures.

Excluding the reversal of provision for impairment of mezzanine loans and accounts receivable, FFO increased by \$27.7 million or 28.7% in 2012 compared to 2011, and by \$8.6 million or 34.8% in Q4 2012 compared to Q4 2011. The increases are primarily due to higher contribution from the property portfolio and higher management fees, offset by higher G&A and financing costs as a result of the significant growth in our property portfolio.

Adjusted Funds from Operations (AFFO)

The following table provides the calculation of AFFO:

(\$000s, except per unit amounts)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
FFO ⁽¹⁾	42,820	24,792	18,028	133,556	96,447	37,109
<i>Add (Subtract):</i>						
Principal portion of capital subsidy receivable from Health Authorities	1,024	903	121	3,812	3,537	275
Amounts received under income guarantees	552	-	552	1,639	-	1,639
Amortization of financing costs and debt mark-to-market adjustments ⁽²⁾	197	720	(523)	1,301	3,037	(1,736)
Financing cost reserve ⁽³⁾	(482)	(413)	(69)	(1,865)	(1,478)	(387)
AFFO before capex reserve	44,111	26,002	18,109	138,443	101,543	36,900
Maintenance capex reserve - 2% of property revenue	(4,608)	(3,966)	(642)	(17,490)	(15,013)	(2,477)
AFFO ⁽⁴⁾	39,503	22,036	17,467	120,953	86,530	34,423
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
AFFO excluding reversal of provision for impairment	30,104	22,036	8,068	111,554	86,530	25,024
AFFO	39,503	22,036	17,467	120,953	86,530	34,423
Interest expense on 5.7% convertible debentures	1,960	-	1,960	6,282	-	6,282
Diluted AFFO	41,463	22,036	19,427	127,235	86,530	40,705
Reversal of provision for impairment of mezzanine loans and accounts receivable	(9,399)	-	(9,399)	(9,399)	-	(9,399)
Diluted AFFO excluding reversal of provision for impairment	32,064	22,036	10,028	117,836	86,530	31,306
AFFO per unit						
Basic	0.23	0.15	0.08	0.72	0.59	0.13
Diluted ⁽⁵⁾	0.22	0.15	0.07	0.71	0.59	0.12
AFFO per unit excluding reversal of provision for impairment						
Basic	0.17	0.15	0.02	0.66	0.59	0.07
Diluted ⁽⁵⁾	0.17	0.15	0.02	0.66	0.59	0.07

(1) Refer to the "Key Performance Indicators – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) 2012 amounts exclude \$0.1 million and \$0.3 million in Q4 2012 and 2012, respectively, relating to amortization of renewal costs of our Credit Facility.

(3) Financing cost reserve is calculated quarterly as 60 basis points applied to our mortgages payable at the end of the quarter, pro-rated based on the weighted average term to maturity.

(4) Refer to the "Key Performance Indicators – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

(5) Includes the dilutive impact of 5.7% convertible debentures.

An analysis of AFFO is described under the "Highlights of Consolidated Results of Operations" section of this MD&A.

Weighted Average Number of Units

The following table provides details of the weighted average number of units:

(000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Weighted average number of units ⁽¹⁾	173,529	146,662	26,867	168,142	145,846	22,296
Dilutive impact of 5.7% convertible debentures	12,273	-	12,273	9,993	-	9,993
Weighted average number of units, diluted	185,802	146,662	39,140	178,135	145,846	32,289

(1) Includes Class B Units and units issued under LTIP, DTU and subscription receipts.

Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

(\$000s)	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	234,714	228,620	218,739	201,648	199,530	187,293	185,047	183,502
Direct operating expenses	(163,944)	(157,203)	(151,598)	(142,569)	(141,611)	(131,652)	(129,406)	(129,463)
G&A expenses	(7,190)	(5,847)	(6,766)	(6,363)	(6,198)	(6,018)	(6,381)	(6,161)
Income before the understated ⁽¹⁾	63,580	65,570	60,375	52,716	51,721	49,623	49,260	47,878
Finance costs	(30,518)	(30,393)	(33,236)	(33,020)	(27,194)	(25,114)	(25,561)	(25,463)
Property lease expense	(625)	(620)	(632)	(627)	(644)	(632)	(492)	(651)
Other income/(expense)	(10,879)	(744)	(6,494)	(2,177)	(2,538)	8,102	(5,896)	940
Depreciation and amortization	(59,852)	(48,507)	(50,989)	(44,571)	(52,032)	(39,350)	(41,244)	(40,773)
Changes in fair value of financial instruments and unrealized foreign exchange gains/(losses)	(1,605)	(9,262)	(10,512)	(28,001)	(3,212)	8,753	1,755	(4,364)
Current income tax (expense)/recovery	(78)	(77)	(82)	(59)	(79)	(80)	(95)	(76)
Deferred income tax (expense)/recovery	1,423	5,495	7,683	7,376	8,729	(2,072)	3,425	4,045
Net loss for the period	(38,554)	(18,538)	(33,887)	(48,363)	(25,249)	(770)	(18,848)	(18,464)
FFO ⁽²⁾	33,421	35,432	29,793	25,512	24,792	24,958	24,047	22,650
FFO per unit	0.19	0.20	0.17	0.17	0.17	0.17	0.17	0.16
FFO per unit diluted	0.19	0.20	0.17	0.17	0.17	0.17	0.17	0.16
AFFO ⁽²⁾	30,104	31,409	27,825	22,217	22,036	22,368	21,876	20,250
AFFO per unit	0.17	0.18	0.16	0.15	0.15	0.15	0.15	0.14
AFFO per unit diluted	0.17	0.18	0.16	0.15	0.15	0.15	0.15	0.14

(1) Refers to income before finance costs, property lease expense, other income/(expense), depreciation and amortization, changes in fair value of financial instruments and unrealized foreign exchange gains/(losses), and income tax.

(2) Q4 2012 amounts exclude the reversal of provision for impairment associated with the Spectrum settlement of \$9.4 million.

Our results for the past eight quarters have been affected by the contribution of acquisitions, our decision in 2008 to reduce our exposure to third-party developers and related mezzanine loans which resulted in declining mezzanine loan interest and management fee income, changes in foreign exchange rates resulting in foreign exchange gains and losses on cross-border intercompany loans, and the issuance of Trust Units. Beginning in Q2 2012, our results were also affected by the Maestro portfolio acquisition.

Selected Annual Financial Information

The following table summarizes selected annual financial information for each of the past three years ended December 31:

(\$000s, except per unit amounts)	2012	2011	2010
Property revenues	874,503	750,634	707,166
Total revenues	883,721	755,372	717,260
Direct operating expenses	615,314	532,132	496,525
Net loss	(139,342)	(63,331)	(61,948)
Total assets	3,005,288	2,706,521	2,679,096
Total liabilities	2,451,163	2,170,729	2,020,597
Distributions declared per unit	0.5400	0.5400	0.5400

Our annual results for the past three years have been primarily affected by the acquisitions of new seniors housing communities and in 2012, by the acquisition of the Maestro portfolio.

Summary of Results of Operations by Division

The following section provides an analysis of the operating performance of each of our operating segments in 2012 and Q4 2012.

Where a community provides more than one level of care, it has been designated to a segment according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.

Canadian Retirement Operations

The following table summarizes the composition of our Canadian Retirement Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same Property - Owned					
100%	98	8,429	2,491	488	11,408
50%	6	730	37	-	767
Total same property owned	104	9,159	2,528	488	12,175
Acquisitions & Development					
100% owned:					
Operating	4	173	157	188	518
Development suites in lease-up	3	163	60	117	340
Partially owned ⁽¹⁾	7	336	217	305	858
Total acquisitions & development	41	7,379	428	60	7,867
Total acquisitions & development	48	7,715	645	365	8,725
Total	152	16,874	3,173	853	20,900

(1) Includes a 50% ownership interest in 40 properties and a 33.3% ownership interest in one property.

The following table presents the results of operations of our Canadian Retirement Operations segment:

(\$000s)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Revenue						
Same property	87,576	85,647	1,929	345,973	335,063	10,910
Acquisitions and development	29,709	4,248	25,461	83,636	20,660	62,976
Total revenue	117,285	89,895	27,390	429,609	355,723	73,886
Direct Operating Expenses						
Same property	56,467	54,708	1,759	217,865	211,385	6,480
Acquisitions and development	20,961	3,622	17,339	58,808	16,489	42,319
Total direct operating expenses	77,428	58,330	19,098	276,673	227,874	48,799
Net Operating Income						
Same property	31,109	30,939	170	128,108	123,678	4,430
Acquisitions and development ⁽¹⁾	8,748	626	8,122	24,828	4,171	20,657
Total net operating income	39,857	31,565	8,292	152,936	127,849	25,087
Weighted average occupancy rate - same property	89.7%	88.3%	1.4pp	88.3%	87.6%	0.7pp
Weighted average occupancy rate – total portfolio	87.9%	87.7%	0.2pp	86.7%	87.0%	(0.3pp)

(1) 2012 amounts include \$1.0 million of negative NOI in 2012 and \$0.1 million of NOI in Q4 2012, related to two development projects in Ontario that commenced operations in March 2012, and one development project in British Columbia that commenced operations in November 2012.

Same property revenues increased 3.3% in 2012 primarily due to higher ancillary revenues from enhanced services provided to our residents, higher occupancies and rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 3.1% in 2012 as increases in compensation, staff benefits, liabilities and administration costs and repairs and maintenance, were offset by lower utility costs and higher purchasing volume incentives.

Same property NOI increased \$4.4 million or 3.6% in 2012 as follows:

- Our Ontario retirement platform same property NOI increased \$1.4 million or 2.2%, primarily due to higher resident revenue from additional services provided to our residents, rental rate growth, improved occupancies as well as higher purchasing volume incentives, lower utility costs and strong expense controls, offset by higher move-in incentives.
- Our Western Canada platform same property NOI increased \$2.0 million or 7.4%, primarily due to higher resident revenue from additional care services provided to our residents, rental rate growth, improved occupancies and strong expense controls.
- Our Quebec platform same property NOI increased \$1.0 million or 3.2%, also due to higher revenues from occupancy improvements, lower utility costs and strong expense controls, offset by higher move-in incentives.

The following table summarizes our annual weighted average occupancy rates in our Canadian retirement same property portfolio:

	2012	2011	Increase / (Decrease)
Ontario	88.7%	88.4%	0.3pp
Western Canada	91.4%	90.3%	1.1pp
Quebec	86.5%	85.4%	1.1pp
Combined	88.3%	87.6%	0.7pp

Fourth Quarter: Same property NOI increased \$0.2 million or 1.0% in Q4 2012 as follows:

- Our Ontario retirement platform same property NOI decreased \$0.5 million primarily as a result of the increased short-term move-in incentives.
- Our Western Canada platform same property NOI increased \$0.7 million or 10.8% primarily due to improved occupancies offset by higher short-term move-in incentives.
- Our Quebec platform same property NOI decreased \$0.1 million or 1.0% primarily due to the increased short-term move-in incentives.

The following table summarizes our quarterly weighted average occupancy rates in our Canadian retirement same property portfolio:

	Q4 2012	Q4 2011	Increase / (Decrease)	Q3 2012	Increase / (Decrease)
Ontario	90.0%	89.1%	0.9pp	88.4%	1.6pp
Western Canada	92.2%	91.0%	1.2pp	91.2%	1.0pp
Quebec	88.3%	86.1%	2.2pp	86.8%	1.5pp
Total	89.7%	88.3%	1.4pp	88.3%	1.4pp

In Q4 2012, occupancies in our Canadian retirement same property portfolio increased to 89.7%, a 1.4 percentage point increase from Q4 2011 and a 1.4 percentage point increase from Q3 2012.

In 2012, the results from the Chartwell-HCN properties were ahead of our expectations.

Canadian Long Term Care Operations

The following table summarizes the composition of our Canadian Long Term Care Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same property - 100% owned	21	-	123	2,782	2,905
Development - 100% owned ⁽¹⁾	3	-	-	219	219
Total	24	-	123	3,001	3,124

(1) Represents three Ontario LTC communities which are in redevelopment. Operations in these properties continue during the redevelopment process.

The following table presents the results of operations of our Canadian Long Term Care Operations segment:

(\$000s, except occupancy rates)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Revenue						
Same property	49,485	48,698	787	191,892	186,394	5,498
Acquisitions and development	3,655	3,642	13	14,274	13,827	447
Total revenue	53,140	52,340	800	206,166	200,221	5,945
Direct Operating Expenses						
Same property	42,887	42,467	420	166,451	162,015	4,436
Acquisitions and development	3,297	3,357	(60)	12,856	12,607	249
Total direct operating expenses	46,184	45,824	360	179,307	174,622	4,685
Net Operating Income						
Same property	6,598	6,230	368	25,441	24,379	1,062
Acquisitions and development	358	286	72	1,418	1,220	198
Total net operating income	6,956	6,516	440	26,859	25,599	1,260
Weighted average occupancy rate - same property	98.9%	98.8%	0.1pp	98.6%	98.5%	0.1pp
Weighted average occupancy rate - total portfolio	99.0%	98.8%	0.2pp	98.6%	98.5%	0.1pp

Same property NOI increased \$1.1 million or 4.4% in 2012, primarily due to higher government funding, increased preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio remained high at 98.6% in 2012.

Fourth Quarter: Same property NOI increased \$0.4 million or 5.9% in Q4 2012 primarily due to higher government funding, increased preferred accommodation rates and strong expense controls.

Weighted average occupancies in the same property portfolio were at 98.9% for Q4 2012 compared to 98.8% for Q4 2011.

U.S. Operations

The following table summarizes the composition of our U.S Operations segment:

	Properties	Composition of Suites			Total
		ISL	AL	LTC	
Same Property - Owned					
100%	29	1,540	1,576	190	3,306
50%	5	-	768	-	768
Total same property owned	34	1,540	2,344	190	4,074
Properties under Operating Lease					
100% Interest	2	42	191	-	233
Total same property owned and leased	36	1,582	2,535	190	4,307
Acquisitions					
100% owned - operating	15	1,848	1,034	-	2,882
Total acquisitions	15	1,848	1,034	-	2,882
Total	51	3,430	3,569	190	7,189

The following table presents the results of operations of our U.S. Operations segment:

(U.S.\$000s, except as noted otherwise)	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Revenue						
Same property	39,074	37,342	1,732	152,972	146,879	6,093
Acquisitions and other ⁽¹⁾	21,423	17,728	3,695	85,924	49,931	35,993
Total revenue	60,497	55,070	5,427	238,896	196,810	42,086
Direct Operating Expenses						
Same property	25,166	24,702	464	98,464	97,311	1,153
Acquisitions and other ⁽¹⁾	15,521	12,101	3,420	60,996	33,729	27,267
Total direct operating expenses	40,687	36,803	3,884	159,460	131,040	28,420
Net Operating Income						
Same property	13,908	12,640	1,268	54,508	49,568	4,940
Acquisitions and other ⁽¹⁾	5,902	5,627	275	24,928	16,202	8,726
Total net operating income	19,810	18,267	1,543	79,436	65,770	13,666
Foreign exchange in CDN	(174)	315	(489)	(41)	(716)	675
Total net operating income in CDN	19,636	18,582	1,054	79,395	65,054	14,341
Weighted average occupancy rate – same property	91.2%	90.0%	1.2pp	90.1%	88.5%	1.6pp
Weighted average occupancy rate – total portfolio	89.3%	89.0%	0.3pp	88.6%	87.6%	1.0pp

(1) Includes the results of the 15-property ING portfolio, the remaining 50% interest of which was acquired in Q4 2011, as well as the results of our U.S. management operations, which were divested in Q3 2011.

Same property revenue increased U.S.\$6.1 million or 4.1% in 2012 primarily due to improved occupancies and rental rate increases in line with competitive market conditions.

Weighted average occupancy rate in our same property U.S. operating segment improved by 1.6 percentage points to 90.1% in 2012 from 88.5% in 2011. Total portfolio occupancy was 88.6% in 2012 compared to 87.6% in 2011.

Same property direct operating expenses increased U.S.\$1.2 million or 1.2% in 2012, as higher compensation costs were partially offset by savings in purchased goods and services and lower utilities and property taxes.

As a result of the above, same property NOI increased U.S.\$4.9 million or 10.0% in 2012.

The operating results for our U.S. operating segment in Canadian dollars were also affected by fluctuations in foreign exchange rates. The average exchange rates were as follows:

	Q4 2012	Q4 2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Weighted average exchange rate for U.S.\$1.00 to CDN	0.99	1.02	(0.03)	1.00	0.99	0.01

A \$0.01 change in the exchange rate for one U.S. dollar to one Canadian dollar would impact AFFO by approximately \$0.2 million in 2012.

Fourth Quarter: Same property NOI increased U.S.\$1.3 million or 10.0% in Q4 2012.

Same property revenue increased U.S.\$1.7 million or 4.6% in Q4 2012, primarily due to improved occupancies, regular annual rental rate increases and an increased number of residents purchasing assisted living and care services.

Weighted average occupancy rate in our U.S operating segment improved by 0.3 percentage points to 89.3% in Q4 2012. The occupancy in the same property portfolio increased 1.2 percentage points to 91.2%. This also represents a 1.3 percentage point growth from Q3 2012 occupancy of 89.9%.

Same property direct operating expenses increased U.S.\$0.5 million or 1.9% in Q4 2012. Increased costs required to provide additional care and services to our residents were offset by lower utilities and administration costs. Upon transition of management of 45 of our U.S properties to Brookdale, we have benefited from Brookdale's strong cost management practices and from their economies of scale.

Financial Position

Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and unitholders' equity for December 31, 2012 compared to December 31, 2011:

	Increase / (Decrease) (\$millions)	Explanation
Total assets	298.8	The increase in total assets is primarily due to the following:
PP&E	208.4	PP&E increased due to acquisitions of \$455.2 million, building improvements and other capital expenditures of \$90.3 million. This was offset by amounts transferred to assets held for sale of \$96.1 million, depreciation of \$200.4 million, impairment of \$21.2 million, the disposal of land held for development of \$0.3 million and foreign exchange translation of \$19.1 million.
Capital funding receivable	1.9	In 2012 we increased capital funding receivable by \$5.7 million as a result of improvements made to two LTC properties. This was partially offset by \$3.8 million from the regular reduction of the receivable due to capital funding collected during the year.
Intangible assets	(2.1)	Intangible assets decreased primarily due to amortization of \$3.5 million, offset by additions of \$1.6 million.
Assets held for sale	97.4	Represents assets related to five properties in the U.S. which were sold in February 2013.
Total liabilities	280.4	The increase in total liabilities is primarily due to the following:
Mortgages payable	103.1	Mortgages payable increased as a result of net new mortgage financings of \$16.1 million and assumed mortgages on acquired properties of \$251.3 million. This was offset by regular amortizing principal repayments of \$47.0 million, amounts transferred to liabilities held for sale of \$97.7 million, foreign exchange translation of \$18.0 million and net financing costs and mark-to-market amortization of \$1.6 million.
Convertible debentures	70.7	Convertible debentures increased due to the issue of a new series of debentures with a face value of \$135.0 million and a mark-to-market adjustment of \$12.1 million. This increase was offset by a decrease of \$76.4 million due to the redemption of debentures.
Accounts payable and other liabilities	8.6	Accounts payable and other liabilities increased primarily due to increases in the DTU balance, deferred revenue and the fair value of the LTIP option component.
Credit Facility	24.0	Credit Facility increased primarily due to the settlement of various liabilities during the period.
Liabilities related to assets held for sale	100.0	Represents liabilities related to five properties in the U.S. which are expected to be sold in Q1 2013.
Unitholders' equity	18.3	The increase in unitholders' equity is primarily due to the issuance of new Trust Units, valued at \$229.5 million, net of issue costs and tax adjustments. This was offset by cash distributions and the allocation of net loss to the Trust's unitholders.

Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2012:

	Trust Units	Trust Units issued under LTIP	Class B Units	Deferred Trust Units	Total
Balance December 31, 2011	142,691,626	2,192,845	1,681,525	354,550	146,920,546
Trust Units issued pursuant to the Dividend Reinvestment Plan ("DRIP")	1,703,174	-	-	-	1,703,174
Trust Units issued under LTIP	-	293,042	-	-	293,042
Trust Units surrendered for cancellation under LTIP	-	(146,890)	-	-	(146,890)
Trust Units released on settlement of LTIP receivable	131,533	(131,533)	-	-	-
DTUs issued	-	-	-	107,668	107,668
DTU distributions	-	-	-	23,287	23,287
Exchange of Class B Units	2,397	-	(2,397)	-	-
Trust Units issued upon conversion of subscription receipts	24,913,125	-	-	-	24,913,125
Balance December 31, 2012	169,441,855	2,207,464	1,679,128	485,505	173,813,952

Liquidity and Capital Commitments

Liquidity

Our cash commitments include interest and other payments related to long-term debt and convertible debentures, contractual deferred purchase obligations, obligations under operating leases as well as cash distributions to unitholders.

Our principal source of liquidity is cash flow from operations. At December 31, 2012, we had cash on hand in the amount of \$5.3 million. In order to provide for our operating and capital requirements, we also raise funds through the capital markets, arrange mortgage debt financing and have a Credit Facility with a maximum committed capacity of \$85.0 million. Our Credit Facility matures on June 22, 2013. Under the terms of the Credit Facility, outstanding balances bear interest at the rate equal to bank's prime rate plus 1.25% or the applicable banker's acceptance rate plus 2.25%. The Credit Facility is secured by charges on certain of our properties and includes minimum equity requirements and covenants requiring limitations on the amounts of distributions that can be paid to unitholders. At December 31, 2012, the maximum available borrowing capacity under the Credit Facility was \$85.0 million, based on security provided, of which \$2.8 million was utilized to support outstanding letters of credit and \$77.0 million was drawn, leaving available borrowing capacity at \$5.2 million.

Subsequent to December 31, 2012, we completed mortgage financing on six of our properties for the aggregate proceeds of \$37.8 million. A portion of these proceeds was used to repay amounts outstanding on our Credit Facility. In addition, we used a portion of the proceeds from the sale of the Bristol Portfolio to further reduce balances outstanding on our Credit Facility.

Debt Strategy

At the present time we employ the following sources of debt financing: property-specific secured mortgages; unsecured convertible subordinated debentures; and the Credit Facility. Our debt management objectives are to:

- access low-cost, long-term, fixed-rate debt and short-term, variable-rate construction financing; and
- manage interest rate risk by spreading debt maturities over time with the target of having no more than approximately 10% of our total debt maturing in any year.

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of Adjusted Gross Book Value (“GBV”), excluding convertible debentures, or 65% of GBV including convertible debentures (“Indebtedness Ratio”).

At December 31, 2012, our Indebtedness Ratio was 54.3% excluding, and 57.9% including convertible debentures, respectively.

Indebtedness Ratio: The following table presents the calculation of our Indebtedness Ratio, excluding assets and liabilities held for sale:

(\$000s)	2012	2011
Mortgages payable (contractual amount)	1,975,625	1,880,533
Credit Facility	77,000	53,000
Total Indebtedness excluding convertible debentures	2,052,625	1,933,533
Convertible debentures (at face value)	135,000	75,000
Total Indebtedness	2,187,625	2,008,533
Total assets	2,907,884	2,706,521
Accumulated depreciation and amortization	489,761	304,019
Cumulative transaction costs on business combinations	16,129	4,326
Change in GBV on transition to IFRS	365,314	379,670
GBV of assets	3,779,088	3,394,536
Less: Assets financed by deferred purchase consideration on acquisition properties	520	5,328
GBV of assets (net of deferred consideration)	3,778,568	3,389,208
Indebtedness Ratio before convertible debentures ⁽¹⁾	54.3%	57.0%
Indebtedness Ratio including convertible debentures ⁽¹⁾	57.9%	59.3%

(1) Refer to the “Key Performance Indicators – Indebtedness Ratio” section of this MD&A for a discussion of Indebtedness Ratio.

If assets and liabilities held for sale were included in the above table, our Indebtedness Ratio would be 54.9% excluding, and 58.4% including convertible debentures.

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we adopted a supplemental operating target for managing our debt portfolio and will be monitoring our Interest Coverage Ratio.

Interest Coverage Ratio: Effective December 31, 2010, we adopted an interest coverage guideline. We target to maintain our Interest Coverage Ratio above 1.65 times. Refer to the “Key Performance Indicators – Interest Coverage Ratio” section of this MD&A for a discussion of Interest Coverage Ratio.

The following table summarizes our Interest Coverage Ratio:

(\$000s, except Interest Coverage Ratio)	Q4 2012	Q4 2011	2012	2011
Interest expense including capitalized interest	30,657	27,303	120,496	103,726
Property lease expense	625	644	2,504	2,420
	31,282	27,947	123,000	106,146
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") ⁽¹⁾	64,794	52,683	246,421	202,299
Interest Coverage Ratio ⁽²⁾	2.07	1.89	2.00	1.91
Target Interest Coverage Ratio		>1.65		

(1) Refer to the "Key Performance Indicators – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

(2) Refer to the "Key Performance Indicators – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.

The following table presents the calculation of Adjusted EBITDA:

(\$000s)	Q4 2012	Q4 2011	2012	2011
Net loss for the period	(38,554)	(25,249)	(139,342)	(63,331)
<i>Add (Subtract):</i>				
Current income tax	78	79	296	330
Deferred income tax	(1,423)	(8,729)	(21,977)	(14,127)
Gain on sale of assets	(37)	(228)	(325)	(7,556)
Reversal of previously-recorded impairment provision	(9,399)	-	(9,399)	-
Writedown of carrying value of assets	21,203	4,580	21,203	13,080
Transaction costs arising on business acquisitions and dispositions	325	653	12,995	1,280
(Gain) on remeasurement of previously-held equity interest on acquisition	-	(1,505)	-	(3,595)
Finance costs	30,518	27,194	127,167	103,331
Property lease expense	625	644	2,504	2,420
Depreciation of PP&E	59,182	50,790	200,383	170,844
Amortization of intangible assets	671	1,242	3,537	2,555
Changes in fair value of financial instruments and unrealized foreign exchange loss/(gain)	1,605	3,212	49,379	(2,932)
Adjusted EBITDA	64,794	52,683	246,421	202,299

Mortgage Debt

At December 31, 2012, we had \$1,975.6 million of mortgages payable of which \$1,341.3 million related to our Canadian properties and \$634.3 million (U.S.\$637.6 million) related to our U.S. properties.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2012, excluding the related mortgages on the U.S. properties held for sale.

(\$000s)	Regular Principal Payments	Principal Due at Maturity	Total	% of Total Debt	Weighted Average Interest Rate on Maturing Debt
Year					
2013	48,385	236,463	284,848	14%	4.83%
2014	42,895	215,496	258,391	13%	4.44%
2015	40,292	263,113	303,405	15%	4.85%
2016	34,982	290,389	325,371	16%	6.12%
2017	25,464	253,722	279,186	14%	5.64%
2018	26,147	41,359	67,506	3%	5.43%
2019	26,184	10,591	36,775	2%	6.07%
2020	26,227	48,899	75,126	4%	4.35%
2021	24,076	50,150	74,226	4%	4.59%
2022	20,388	54,567	74,955	4%	3.61%
2023	16,402	14,224	30,626	2%	6.07%
2024	12,277	17,394	29,671	2%	7.13%
Thereafter	114,155	21,384	135,539	7%	4.97%
Total	457,874	1,517,751	1,975,625	100%	
Mark-to-market adjustments arising on acquisition			20,477		
Less: Financing costs			(16,752)		
Total Mortgage Debt			1,979,350		

The following table provides selected financial statistics for our mortgage debt portfolio:

	At December 31, 2012			At December 31,
	Canadian Debt		U.S. Debt	2011
	Fixed Rate	Variable Rate	Fixed Rate	Combined
Amount (\$millions)	1,173.7	167.6	634.3	1,975.6
Weighted average rate	4.99%	4.42%	5.90%	5.23%
Average term to maturity (years)	8.0	1.2	3.4	6.0

In Canada, we generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). All of our Canadian properties are eligible for CMHC financing and as of December 31, 2012, approximately 65% of our total Canadian mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt on renewal.

Subsequent to December 31, 2012, in line with our financing strategy, we completed CMHC mortgage financing on six of our properties for the aggregate proceeds of \$37.8 million. A portion of these proceeds was used to repay amounts outstanding on our Credit Facility. Five of these mortgages, totalling \$30.0 million, have term-to-maturity of 20 years and bear interest at 3.95%. The other \$7.8 million mortgage has a 10-year term and bears interest at 3.03%.

In the U.S., approximately 75% of our mortgages, excluding the mortgages on our U.S. properties held for sale, are with the Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae"). Both of these entities are government-sponsored enterprises which provide access to competitive financing for seniors housing properties. In 2013, mortgages on four

of our non-core properties in the U.S. in the amount of U.S.\$37.5 million are coming due. We expect to repay some or all of this maturing debt from the proceeds of sales of the U.S. non-core assets. The remaining U.S. loans mature between 2015 and 2017.

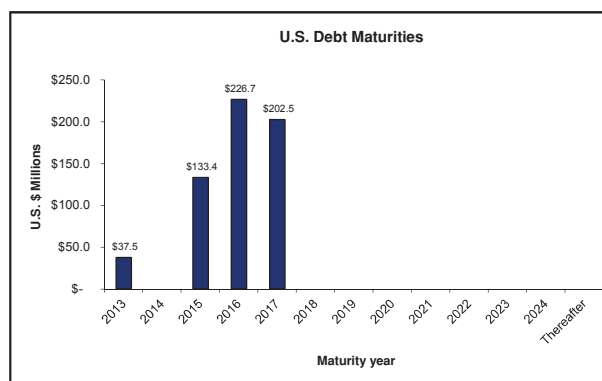
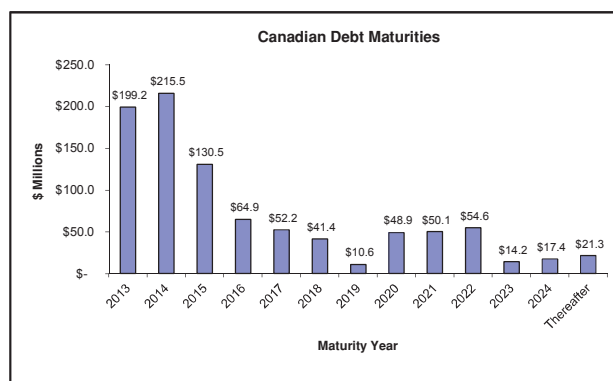
Our variable-rate mortgages primarily relate to recently acquired communities in lease-up and our development projects in Canada. Variable-rate loans are expected to be refinanced with fixed-rate, CMHC-insured debt upon completion and stabilization of the development properties and acquired properties in lease-up.

The following table summarizes our variable-rate mortgages as at December 31, 2012:

(\$000s, except number of projects)	Number of Projects	December 31, 2012	Number of Projects	December 31, 2011
Mortgages on properties under construction	3	13,452	4	27,276
Mortgages on properties in lease-up	11	145,939	8	62,274
Mortgages on stabilized properties	3	8,249	1	6,148
Total	17	167,640	13	95,698

Subsequent to December 31, 2012, one of the mortgages on a stabilized property, with the outstanding balance of \$5.3 million, was refinanced with a \$7.8 million, 10-year, CMHC-insured mortgage, bearing interest at 3.03%.

The following charts provide the breakdown of our debt maturities in Canada and the U.S. excluding the related mortgages on the U.S. properties held for sale:



Convertible Debentures

During Q1 2012, we issued a new series of \$135.0 million aggregate principal amount of 5.7% convertible debentures and fully-redeemed the existing \$75.0 million aggregate principal amount of 5.9% convertible debentures, plus accrued interest.

The new series have a face value of \$135.0 million, bear interest at 5.7% and mature on March 31, 2018. Each debenture is convertible into freely tradeable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018 and the last business day immediately preceding the date specified by Chartwell for the redemption of the debentures, at a conversion price of \$11.00 per Trust Unit. The net proceeds from the issuance of the debentures, after underwriting fees and other offering costs, was \$129.6 million. The proceeds were used to redeem the \$75.0 million aggregate principal amount of 5.9% convertible debentures, and to partially repay the balances outstanding on the Credit Facility.

Capital Expenditures

We classify our capital expenditures in the following main categories:

- Development – capital expenditures in respect of our development projects in progress.
- Acquisition – capital expenditures which were identified during acquisition due diligence for newly acquired assets.
- Revenue enhancing and repositioning – capital expenditures that improve the revenue generating potential of our properties.
- Maintenance – capital expenditures incurred to maintain existing revenue generating potential of our properties, such as routine replacement of building components, furniture, fixtures and equipment. We generally reserve 2% of our gross property revenue for maintenance capital expenditures annually; however, actual amounts spent may fluctuate from period to period.

The following table summarizes additions to properties during 2012 and 2011:

(\$000s)	2012	2011
Development	46,704	35,741
Acquisition	8,914	10,251
Revenue enhancing and repositioning	6,979	3,654
Maintenance	24,765	21,727
Total ⁽¹⁾	87,362	71,373

(1) Excludes \$4.4 million in capital additions relating to land held for development, corporate office leasehold improvements and corporate office IT assets.

Contractual Obligations and Guarantees

Contractual Obligations

The following table summarizes the major contractual obligations as at December 31, 2012:

(\$000s)	Total	2013	2014	2015	2016	2017	Thereafter
Mortgages payable	1,975,625	284,848	258,391	303,405	325,371	279,186	524,424
Accounts payable and other liabilities	121,072	121,072	-	-	-	-	-
Distributions payable	7,800	7,800	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	-	135,000
Credit Facility	77,000	77,000	-	-	-	-	-
Purchase obligations	20,296	20,296	-	-	-	-	-
Property operating leases	7,945	1,589	1,589	1,589	1,589	1,589	-
Other operating leases	11,222	1,125	1,321	1,306	1,164	1,129	5,177
Land leases	15,665	395	395	395	395	395	13,690
Total contractual obligations	2,371,625	514,125	261,696	306,695	328,519	282,299	678,291

Purchase obligations relate primarily to construction contracts and deferred purchase considerations.

Property operating leases relate to our 100% leased interests in two seniors housing communities.

Other operating leases relate to the agreements we entered into for office space in Ontario, Quebec, and British Columbia.

Land leases relate to three properties and expire between 2044 and 2061.

Other Contracts

45 of our U.S. properties are managed by Brookdale. The management agreements are for a term of approximately 10 years, maturing on December 31, 2021, and call for payment of a base management fee of 5% of gross revenue. Such management agreements also provide for an incentive fee of up to 2% of gross revenue and for a reduction of fee of up to 1% of gross revenue based on achievement of certain operating targets.

Guarantees

As of December 31, 2012, together with our joint venture partners, we have jointly and severally guaranteed CMHC-insured loans on three properties. The maximum amount of these guarantees is \$52.3 million. As at December 31, 2012, the outstanding balance of these loans was \$48.8 million.

Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2012 and 2011:

Cash Provided by (Used in):	Increase / (Decrease) (\$millions)	Explanation
Operating activities	(8.2)	Cash flows from operating activities decreased primarily due to changes in working capital balances and was partially offset by the net change in non-cash items.
Financing activities	204.7	Cash flows from financing activities increased primarily due to public offering of Trust Units and the issuance of the 5.7% convertible debentures. This was partially offset by the redemption of the 5.9% convertible debentures and higher scheduled mortgage principal repayments.
Investing activities	(197.0)	Cash flows from investing activities decreased primarily due to the purchase of the Maestro portfolio and higher additions to PP&E and intangible assets, and was partially offset by higher mezzanine loan repayments.

Distributions

The declaration and payment of future distributions is at the discretion of the board of trustees of Chartwell (the "Trustees"). The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors considered relevant by them in setting the distribution rate. Our current monthly distributions are \$0.0450 per unit, or \$0.54 per unit on an annualized basis.

Unitholders who are Canadian residents are eligible to participate in our Distribution Reinvestment Plan ("DRIP"), which allows unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP receive additional bonus units in an amount equal to 3% of the distributions which they have elected to reinvest. In 2012 and Q4 2012, our average DRIP participation was 18.5% and 21.1%, respectively, compared to 19.8% participation in 2011 and 6.7% in 2010.

The following table summarizes distributions made in 2012, 2011 and 2010:

(\$000s)	Q4 2012	2012	2011	2010
Distributions declared on Trust Units ⁽¹⁾	23,102	89,791	77,538	71,144
Distributions on Class B Units	227	909	908	989
Distributions reinvested under DRIP	(4,814)	(15,791)	(15,075)	(4,795)
Distributions applied against LTIP receivable	(301)	(1,200)	(1,230)	(1,235)
Distributions paid or payable in cash	18,214	73,709	62,141	66,103

(1) 2012 amount includes \$2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.

The following table summarizes cash distributions made in 2012, 2011 and 2010 in relation to net loss and cash flows from operating activities:

(\$000s)	Q4 2012	2012	2011	2010
Cash flows from operating activities	43,550	102,840	110,998	88,861
Net loss	(38,554)	(139,342)	(63,331)	(61,948)
Distributions paid or payable in cash ⁽¹⁾⁽²⁾	18,214	73,709	62,141	66,103
Excess/(shortfall) of cash flows from operating activities over cash distributions paid	25,336	29,131	48,857	22,758
Shortfall of net loss over cash distributions paid	(56,768)	(213,051)	(125,472)	(128,051)

(1) Cash distributions do not include distributions satisfied through issuance of units under DRIP or distributions applied against the LTIP receivable.

(2) 2012 amount includes \$2.2 million distributions on subscription receipts recorded as interest expense for accounting purposes.

We distributed cash to our unitholders despite recording net losses in each of 2012, 2011 and 2010. We do not use net loss as determined in accordance with IFRS as the basis for establishing the level of distributions to unitholders, as net loss includes, among other items, non-cash depreciation and amortization and changes in fair values of certain liabilities. We do not consider non-cash depreciation and amortization and fluctuations in fair values of certain liabilities in establishing our distribution levels as we believe that the value of our real estate investments generally does not diminish over time and as we give consideration to maintenance capital expenditures in establishing the level of annual distributions to unitholders. We believe that our current distribution level is sustainable.

Related-Party Transactions

In Q2 2012, we acquired two parcels of land from a company controlled by one of the senior executives of Chartwell. These acquisitions were completed to facilitate potential future redevelopment of two of our LTC communities. The total consideration was \$0.5 million and the executive was not involved in the approval process of these acquisitions.

Key Performance Indicators

We use a number of key performance indicators (“KPIs”) for monitoring and analyzing our financial results. These KPIs are not defined by IFRS and may not be comparable to similar measures presented by other income trusts or other companies. KPIs are described below:

Funds from Operations

FFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada (“REALpac”) with the exception of the following where, in our 2012 FFO calculation, we added back:

- Issue costs of convertible debentures expensed for the period under IFRS to improve comparability to the reported FFO in prior periods;
- Distributions on subscription receipts recorded as interest expense under IFRS and costs related to asset divestitures. We view these subscription receipts as equity instruments and included them in our calculation of weighted average units outstanding from the date of issuance; and
- Transaction costs related to the disposition of properties

According to REALpac guidance, FFO is defined as follows: Profit or loss per IFRS Statement of Comprehensive Income adjusted for:

- A. Unrealized changes in the fair value of investment properties.
- B. Depreciation of depreciable real estate assets including depreciation for components relating to capitalized leasing costs, capitalized tenant allowances treated as capital improvements and lease-related items ascribed in a business combination.
- C. Amortization of tenant allowances and landlord’s work spent for the fit-out of tenant improvements and amortized as a reduction to revenue in accordance with SIC-15.
- D. Amortization of tenant/customer relationship intangibles or other intangibles arising from a business combination.
- E. Gains / losses from sales of investment properties and owner-occupied properties, including the gain or loss included within discontinued operations (if applicable).
- F. Tax on profits or losses on disposals of properties.
- G. Deferred taxes.
- H. Impairment losses or reversals recognized on land and depreciable real estate properties, excluding those relating to properties used exclusively for administrative purposes.
- I. Revaluation gains or losses recognized in profit or loss on owner-occupied properties, excluding those relating to properties used exclusively for administrative purposes.
- J. Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination.
- K. Foreign exchange gains or losses on monetary items not forming part of a net investment in a foreign operation.
- L. Gain or loss on the sale of an investment in a foreign operation.
- M. Changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting.
- N. Bargain purchase or goodwill impairment.
- O. Effects of redeemable units classified as financial liabilities.

Other items:

- P. Results of discontinued operations.
- Q. Adjustments for equity accounted entities.
- R. Non-controlling interests in respect of the above.

In our opinion, the use of FFO, combined with the required primary IFRS presentations, is fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. We generally consider FFO to be a meaningful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), transaction costs arising on business acquisitions and dispositions, impairment of PP&E, distributions on Class B Units recorded as interest expense, convertible debenture issue costs and changes in fair value of financial instruments and unrealized foreign exchange gains/losses, FFO can help one to compare the operating performance of the Trust's real estate portfolio between financial reporting periods.

The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide a reconciliation of net loss to FFO, as reported in our Financial Statements.

Adjusted Funds from Operations

AFFO does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. AFFO as presented may not be comparable to similar measures presented by other issuers. We believe AFFO is useful in the assessment of our operating performance and that this measure is also useful for valuation purposes and is a relevant and meaningful measure of our ability to earn and distribute cash to unitholders. We calculate AFFO by adding or subtracting certain items to or from FFO as defined by REALpac, as follows:

Principal portion of capital subsidy receivable: This item represents a portion of the long-term cash flow stream provided by the Ontario Ministry of Health and Long Term Care to communities which meet certain design criteria. We include this item in AFFO calculations.

Income guarantees: This item represents amounts due from vendors of acquired communities under the applicable purchase and sale agreement. It is generally applicable to communities in lease-up.

Amortization of financing costs and fair value adjustments on mortgages payable: Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

Financing cost reserve: In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our mortgage portfolio.

Capital maintenance reserve: Capital maintenance reserve is estimated at 2% of property revenue.

The tables presented under the "Consolidated Results of Operations – Non-IFRS Measures" section of this MD&A provide details of AFFO calculations.

Net Operating Income

NOI does not have a standardized meaning prescribed by IFRS and should not be construed as an alternative to other IFRS metrics. We define NOI as the difference between property revenue and property direct operating expenses. We believe that the use of NOI combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms.

Per Unit Amounts

In our calculations of FFO per unit and AFFO per unit, we include the Class B Units as the Class B Units are exchangeable into Trust Units at any time at the option of the unitholder. In addition, we include units issued under DTU, LTIP and subscription receipts. In our calculation of FFO per unit diluted and AFFO per unit diluted, we consider the dilutive impact of conversion of our convertible debentures.

Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year. In addition, to improve comparability, we designate properties where we have added significant capacity or expect in the current year to open new suites to be excluded from the same property portfolio.

The following table summarizes the same property portfolio for 2012:

	Properties	Suites/Beds
Canadian Retirement Operations	104	12,175
Canadian Long Term Care Operations	21	2,905
U.S. Operations (owned and leased)	36	4,307
Total Same Property Portfolio	161	19,387

Interest Coverage Ratio

The interest coverage guideline provides an indication of an entity's ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity's ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt.

Adjusted EBITDA

EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. In our calculation of the adjusted EBITDA, we exclude transaction costs arising on business acquisitions and dispositions, which are expensed as incurred, gains/losses on disposition of properties, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and non-recurring items such as asset impairment provisions or reversal of such provisions, or debenture issuance costs.

Indebtedness Ratio

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 60% of GBV, excluding convertible debentures, or 65% of GBV including convertible debentures. Under the Declaration of Trust, total indebtedness includes any obligation for borrowed money, any obligation incurred in connection with the acquisition of property, assets or business, other than deferred income tax liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in our consolidated balance sheet.

Critical Accounting Policies and Estimates

Under IFRS, it is necessary to make estimates when preparing the financial statements and then to re-evaluate the original estimates used on an ongoing basis. Management's estimates are based on past experience and other factors that it believes are reasonable under the circumstances. As this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Valuation of PP&E

PP&E makes up approximately 91% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the recoverable amount of a cash generating unit ("CGU") exceeds its carrying amount. Factors which could indicate that an impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our business, markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a) fair value less costs to sell, and b) the value in use calculated on a discounted cash flow basis. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the PP&E. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

Useful Life of PP&E

PP&E is depreciated over the estimated useful life of their components. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset components. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year. The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as discussed previously.

Guarantees

We continually review our contingent liabilities relating to guarantees we have provided on behalf of third parties. Our guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release our covenants. Recourse would be available to us under these guarantees in the event of a default by the borrowers, in which case we would have a claim against the underlying real estate investments. We would record a provision for a liability when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the

contractual debt service terms of the underlying debt and/or the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. Our estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of such contingent liability.

Income taxes

In accordance with IFRS, we use the asset and liability method of accounting for deferred income taxes and provide for deferred income taxes for all significant temporary differences between the carrying amounts of associated liabilities for financial reporting purposes and the amounts used for taxation purposes.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in deferred tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could potentially be material.

An assessment must also be made to determine the likelihood that the Trust's deferred tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more likely, deferred tax assets are not recognized. Judgment is required in determining the provision for income taxes, and deferred income tax assets and liabilities. To the extent the recognition of deferred tax assets is revised, current period earnings would be affected.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties (that is, other than in a forced or liquidation sale) in an arm's length transaction under no compulsion to act. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions).

Our financial statements are affected by fair value measures, the most significant areas affected are as follows:

- Upon acquisition of properties we estimate the fair value of acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (above and below-market leases representing the value of the differential between contractual and market rents, in-place leases, customer relationships, and licenses) and the value of the differential between stated and market interest rates on long term liabilities assumed at acquisition.

- Fair value forms the basis for allocating consideration to each unit of accounting for revenues from contracts with multiple deliverables that meet the criteria for separate unit of accounting revenue recognition.
- As discussed in valuation of properties above, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over its recoverable amount.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the recoverable amount to carrying value to determine if an impairment loss is required to be recognized.
- In assessing our potential exposure relating to third party guarantees we evaluate the fair value of the borrower's interests in the underlying real estate investments compared to the liability for which we have provided a guarantee.
- All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods may be at fair value depending on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.
- We disclose in our financial statements the fair value of our mortgages based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks, or market quotes where applicable.
- Class B Units of Master LP and convertible debentures are recorded at fair value based on listed prices of the debentures and of Trust Units.

Property Revenue

Revenue is recognized when services are provided to residents. In Canada, the provinces regulate fees charged to residents of long term care homes and provincial or regional programs fund a substantial portion of these fees. We receive reimbursements from these funding authorities for services rendered to residents covered by these programs. Preparation of the financial statements requires an estimate of the amounts recoverable and earned from the various funding authorities in the jurisdictions in which we operate. Judgment is required to assess amounts recoverable under the various funding agreements, and related regulations and legislation, which are continually changing. The impact of different interpretations and applications of these agreements could change revenues.

New Accounting Standards

Recent Accounting Pronouncements

IFRS 9, Financial Instruments ("IFRS 9")

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 and in October 2010, the IASB published amendments to IFRS 9. In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 replaces the guidance in IAS 39 and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

In May 2011, the IASB issued IFRS 10, with further amendments issued in June and October 2012. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

IFRS 11, Joint Arrangements ("IFRS 11")

In May 2011, the IASB issued IFRS 11, with further amendments issued in June 2012. IFRS 11 replaces the guidance in IAS 31, Interests in Joint Ventures ("IAS 31") and focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring interests in jointly-controlled entities to be accounted for under the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. It is expected that IFRS 11, when initially adopted, will have a significant impact on our financial statements as we had previously accounted for our interest in several properties using proportionate consolidation. However, we are not able, at this time, to estimate reasonably the impact that IFRS 11 will have on the financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

In May 2011, the IASB issued IFRS 12, with further amendments issued in June 2012. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13")

In May 2011, the IASB published IFRS 13. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to

develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs. This new standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

In May 2011, the IASB issued amendments to IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has been classified as held for sale to be measured using the equity method, until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 28 has not yet been determined.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

In June 2011, the IASB amended IAS 1. This amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 1 has not yet been determined.

Amendments to IAS 19, Employee Benefits ("IAS 19")

In June 2011, the IASB amended IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in other comprehensive income. It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. This amended standard is effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 19 has not yet been determined.

Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7, Financial Instruments: Disclosures ("IFRS 7"):

In December 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The IASB also amended IFRS 7 to include new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheets or subject to master netting arrangements or similar arrangements.

The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014, and the amendments to IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 and IFRS 7 has not yet been determined.

Annual Improvements to IFRSs 2009-2011 Cycle - Various Standards

The IASB issued its Annual Improvements to IFRSs - 2009-2011 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013, with retrospective application. The new cycle of

improvements contains amendments to the several standards including: IAS 1, IAS 16, IAS 32, and IAS 34. The amendments to the standards are effective for our interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue to make significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2012, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of Chartwell's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Chartwell's disclosure controls and procedures were effective as at December 31, 2012.

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2012, and based on that assessment determined that our internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission.

During 2012, we performed phase-in upgrades to our existing Yardi system (full conversion effective January 2, 2013) and implemented the Hyperion Financial Management Consolidation system. In addition, we transitioned accounting and finance support of our Quebec portfolio from our Montreal office

to our Mississauga office. Effective May 1, 2012, we entered into an agreement with a subsidiary of HCN to purchase a portfolio of 39 retirement communities with each holding a 50% undivided interest. The results of the joint venture operations are included in our Financial Statements at our proportionate share.

We have considered the corresponding control risks and have performed procedures to obtain reasonable assurance on the design and operating effectiveness of internal controls over financial reporting that are new or are significantly modified.

Other than the above mentioned items, there were no material changes in our internal controls over financial reporting that occurred during the year ended December 31, 2012, that have significantly affected or are reasonably likely to significantly affect the our internal control over financial reporting.

Forward-Looking Information and Risks and Uncertainties

Forward-Looking Information

This MD&A contains forward-looking information that reflects the current expectations, estimates and projections of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. The words “plans”, “expects”, “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “intends”, “anticipates”, “does not anticipate”, “projects”, “believes” or variations of such words and phrases or statements to the effect that certain actions, events or results “may”, “will”, “could”, “would”, “might”, “occur”, “be achieved” or “continue” and similar expressions identify forward-looking statements. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- growth, or lack thereof, of G&A expenses, which is subject to the risk and uncertainty that economic conditions may result in increased costs of goods and services and management expense and is subject to the assumption that our need for corporate overhead does not substantially decrease or increase;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing or due to other general business risks;
- our ability to predict seasonal increases in occupancy rates due to uncertain economic conditions;
- our ability to renew maturing debt, including our Credit Facility and to obtain new financings, in due

course;

- timing of closing of acquisitions or dispositions which are subject to legal, regulatory and lenders' approvals which may not be received as currently expected;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- our ability to successfully complete announced acquisitions, dispositions and assume the associated secured debt in the manner currently contemplated, including those acquisitions and dispositions described in this MD&A;
- certain assumptions relating to the debentures, including, credit risk in respect of the debentures, prior ranking indebtedness and absence of covenant protection, structural subordination of debentures, conversion of debentures following certain transactions, value of conversion privilege of the debentures, debentures redemption prior to maturity, inability of Chartwell to purchase debentures on a change of control and dilution;
- the expected return to be realized by Chartwell as a result of the acquisition of the Maestro portfolio, including the degree to which such acquisition may be accretive;
- the effect of the acquisition of the Maestro portfolio on the financial performance of Chartwell; and
- Chartwell will maintain good relations with HCN and receive the expected benefits associated with the co-ownership.

While we anticipate that subsequent events and developments may cause our views to change, we do not intend to update forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time, including but not limited to our most recent Annual Information Form.

Risks and Uncertainties ♦

- (a) **Business Risks:** Chartwell is subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.
- (b) **Taxation:** We currently qualify as a mutual fund trust for Canadian income tax purposes.

♦ For a complete description of the Risks and Uncertainties, please refer to our most recent AIF.

With the enactment of the SIFT Rules and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance, we were subject to SIFT tax effective January 1, 2007.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. Such distributions are not currently taxable to unitholders but serve to reduce the adjusted cost base of a unitholder's units. In 2012 we completed the Maestro portfolio acquisition, implemented an internal reorganization to simplify our corporate structure and settled with Spectrum on certain mezzanine loans and other amounts due. As a result, in 2012 the taxable portion of our distributions to unitholders was higher than in prior years. In 2012, 83.2% of our distributions were classified as return of capital, 3.8% as foreign-source interest income and 13.0% as other income. We were not subject to cash SIFT taxes in 2012 and now, based on our forecasts, we do not expect to be subject to cash SIFT taxes in 2013 and 2014.

- (c) **Geographic Concentration:** Our business and operations are conducted in the United States and Canada, and within Canada primarily in Ontario and Quebec. A geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, is described under the "Business Overview" section of this MD&A. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.
- (d) **Maintenance of Assets:** We are committed to keep our communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring maintenance capital projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the recurring maintenance capital requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in recurring maintenance capital requirements of our communities could adversely impact cash available to us. The details of our actual capital asset spending for 2012 can be found in the "Capital Expenditures" section of this MD&A.
- (e) **Acquisition, Development:** Our external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. If we are unable to manage our growth, integrate our acquisitions effectively and achieve expected returns on acquisitions and development projects, our business, operating results and financial condition could be adversely affected.

Dispositions: From time to time we may dispose of certain assets which are considered non-strategic or non-core to our portfolio. Failure to dispose of such assets at a reasonable price may negatively impact our ability to deliver on our corporate strategies.
- (f) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust's ability to find residents for its seniors housing communities and on the rents which may be charged, and could adversely affect our revenues and, consequently, our ability to meet debt obligations. An increased supply of suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.
- (g) **Government Regulation:** Healthcare in Canada and in the U.S. is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory

changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In addition, new regulatory standards and requirements are being considered in a number of jurisdictions which may affect all types of seniors housing communities. Further, aspects of new legislation that was proclaimed into force in Ontario on July 1, 2010, have affected our LTC communities, including: new licensing procedures based on more rigorous standards for license review, the granting of licenses for fixed-terms of up to 25 years, depending on bed classifications; the granting of replacement licenses to be based on a home's structural classification that will be issued for a maximum of 25 years; more onerous duties imposed on licensees; defined expectations and requirements for key services to be provided in communities, including the requirement that a registered nurse be on-site 24 hours a day, seven days a week; requirements for the qualification, training and orientation of community staff, volunteers and persons who provide direct services to residents; and unannounced annual inspections of homes.

- (h) **Personnel Costs:** We compete with other healthcare providers with respect to attracting and retaining qualified personnel. We are also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.
- (i) **Labour Relations:** In Canada we employ or supervise over 13,500 persons, of whom approximately 70% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that we will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on our business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services. Non-unionized seniors housing communities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing communities we own that are not currently unionized will not, in the future, be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

- (j) **Debt Financing:** We have and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and LTC communities.

We may not be able to renegotiate the terms of renewal of our debt at favourable rates. To the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, we may be required to finance a conventional mortgage which may be less favourable to us than a CMHC-insured mortgage. In addition, the terms of our indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust. Therefore, upon an event of default under such indebtedness, our ability to make distributions will be adversely affected.

A portion of our cash flow is devoted to servicing our debt, and there can be no assurance that we will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If we were unable to meet interest or principal payments, we could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. We are also subject to the risk that any of our existing indebtedness may not be able

to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of our existing indebtedness.

- (k) **U.S./Canadian Exchange Rate Fluctuations:** We have interests in seniors housing communities located in the U.S. We will, therefore, be subject to foreign currency fluctuations which may, from time to time, have an impact upon our financial position and results. We may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging agreements, if any, would be sufficient to protect against currency exchange rate losses that could adversely affect cash available to us.
- (l) **Environmental Liabilities:** Under various environmental laws and regulations, we, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in our properties or disposed of at other locations sometimes regardless of whether or not we knew of or were responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, our management is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust. It is our operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted. They are intrusive investigations that involve soil, groundwater or other sampling to confirm the absence or presence and extent of an environmental concern.

Environmental laws and regulation may change and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our business, financial condition or results of operation and distributions.

- (m) **Liability and Insurance:** The businesses, which are carried on, directly or indirectly, by us, entail an inherent risk of liability. Management expects that from time to time we may be subject to such lawsuits as a result of the nature of its businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against us not covered by, or in excess of, our insurance could have a material adverse effect on our business, operating results and financial condition. Claims against us, regardless of their merit or eventual outcome, also may have a material adverse effect on our ability to attract residents or expand their businesses, and will require management to devote time to matters unrelated to the operation of the business.
- (n) **Joint-Venture Interests:** We have entered into joint-venture arrangements in respect of certain of our seniors housing operations. These joint-venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing properties including those risks described above. However, we may be exposed to adverse developments, including a possible change in control, in the business and affairs of our joint-venture partners which could have a significant impact on, or termination of, our interests in our joint ventures and could affect the value of the joint ventures to us and/or cause us to incur additional costs if we were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint-venture arrangements themselves, including: the risk that the other joint-venture partner may exercise buy-sell, put or other sale or purchase rights which could obligate

us to sell our interest or buy the other joint-venture partner's interest at a price which may not be favourable to us or at a time which may not be advantageous to us, the effect of which could be materially adverse to our financial position or resources.

- (o) **Economic and Financial Conditions:** Adverse changes to the economic and financial conditions in Canada, the U.S. and globally could impact our ability to execute upon our operating, investing and financing strategies which, in turn, could have a material adverse impact on our business, sales, profitability and financial position. General uncertainty on the timing of a recovery from recent financial market volatility may continue to create a challenging operating environment for us.
- (p) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.
- (q) **Distributions:** Currently, our distributions are determined in relation to AFFO. While we intend for such distributions to be at least equal to 70% of our AFFO for a specified year, items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions, may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under the terms of our Credit Facility, distributions to unitholders are limited to 100% of our AFFO.
- (r) **U.S. Disposition Program:** As part of our previously-announced property disposition program in the United States, we are considering the disposition of certain of our properties located in the United States (the "U.S. Disposition Program"). The U.S. Disposition Program consists of the potential disposition of approximately 2,400 suites in 10 states. We believe our increased focus on Canadian markets will enhance the stability of our earnings, provide further economies of scale and operating synergies and reduce the operating and foreign exchange risks associated with our U.S. portfolio. There can be no assurance that we will be able to complete a disposition of any of our properties in the United States, or that if completed, the anticipated benefits of the U.S. Disposition Program will be realized in a manner consistent with our current expectations. Accordingly, there should be no assumption that we will be able to successfully complete the U.S. Disposition Program or that we will be able to realize the anticipated benefits associated with the U.S. Disposition Program.

Management's Responsibility for Financial Statements

To the Unitholders of Chartwell Retirement Residences

The accompanying consolidated financial statements of Chartwell Retirement Residences and the information included in this Annual Report have been prepared by management, which is responsible for their consistency, integrity and objectivity. Management is also responsible for ensuring that the consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards. To fulfill these responsibilities, management maintains appropriate systems of internal control, policies and procedures to ensure its reporting practices and accounting and administrative procedures are of high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements in accordance with generally accepted auditing standards in Canada, to enable the expression of their opinion on the consolidated financial statements to the unitholders. Their report, as auditors, is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and engaging the independent auditors. The Board of Trustees carries out this responsibility through its Audit Committee, which meets regularly with management and the independent auditors. The Audit Committee is composed of three members who are independent of management. The consolidated financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The independent auditors have direct and full access to the Audit Committee and Board of Trustees.



W. Brent Binions
President and Chief Executive Officer



Vlad Volodarski
Chief Financial Officer

Independent Auditors' Report

To the Unitholders of Chartwell Retirement Residences

We have audited the accompanying consolidated financial statements of Chartwell Retirement Residences, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, the consolidated statements of 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chartwell Retirement Residences as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small arrowhead pointing to the right.

Chartered Accountants, Licensed Public Accountants

March 6, 2013
Toronto, Canada

Consolidated Balance Sheets

(In thousands of Canadian dollars)

December 31, 2012 and 2011

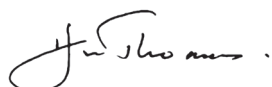
	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents		\$ 5,309	\$ 10,687
Trade and other receivables		20,296	13,144
Mezzanine loans receivable	6	–	9,653
Capital funding receivable	7	4,396	3,743
Other assets	8	28,318	27,153
Assets held for sale	9	97,404	–
Total current assets		155,723	64,380
Non-current assets:			
Other assets	8	7,186	7,344
Capital funding receivable	7	56,661	55,377
Intangible assets	5	50,775	52,879
Property, plant and equipment ("PP&E")	4	2,734,943	2,526,541
Total non-current assets		2,849,565	2,642,141
Total assets		\$ 3,005,288	\$ 2,706,521

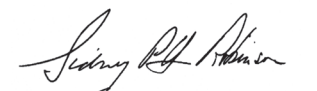
Liabilities and Unitholders' Equity

Current liabilities:			
Secured revolving operating credit facility ("Credit Facility")	10(b)	\$ 77,000	\$ 53,000
Accounts payable and other liabilities	12	121,072	112,497
Distributions payable		7,800	6,596
Mortgages payable	10(a)	282,223	205,373
Convertible debentures	11	–	76,425
Deferred consideration on business combinations	13	520	5,328
Liabilities held for sale	9	99,969	–
Total current liabilities		588,584	459,219
Non-current liabilities:			
Mortgages payable	10(a)	1,697,127	1,670,893
Convertible debentures	11	147,150	–
Class B Units of Chartwell Master Care LP ("Class B Units")	14	18,302	14,292
Deferred tax liabilities	25	–	26,325
Total non-current liabilities		1,862,579	1,711,510
Total liabilities		2,451,163	2,170,729
Unitholders' equity	15	554,125	535,792
Commitments and contingencies	26		
Subsequent events	29		
Total liabilities and unitholders' equity		\$ 3,005,288	\$ 2,706,521

See accompanying notes to consolidated financial statements.

Approved by the Trustees:


Huw Thomas, Trustee


Sidney Robinson, Trustee

Consolidated Statements of Comprehensive Loss

(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Note	2012	2011
Revenue:			
Resident		\$ 874,503	\$ 750,634
Management and other fees		7,725	3,137
Mezzanine loan interest		1,493	1,601
		<u>883,721</u>	<u>755,372</u>
Expenses:			
Direct operating		615,314	532,132
General, administrative and trust		26,166	24,758
		<u>641,480</u>	<u>556,890</u>
Income before the undernoted ⁽¹⁾		242,241	198,482
Finance costs	23	127,167	103,331
Property lease expense		2,504	2,420
Other expense (income)	22	20,294	(608)
Depreciation of PP&E	4	200,383	170,844
Amortization of intangible assets	5	3,537	2,555
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	24	49,379	(2,932)
Loss before income taxes		(161,023)	(77,128)
Income tax expense (benefit):	25		
Current		296	330
Deferred		(21,977)	(14,127)
		<u>(21,681)</u>	<u>(13,797)</u>
Loss for the year		(139,342)	(63,331)
Other comprehensive income (loss):			
Unrealized foreign currency gain (loss) on translation of foreign operations		(1,504)	1,184
Total comprehensive loss		\$ (140,846)	\$ (62,147)

⁽¹⁾Refers to income before finance costs, property lease expense, other expense (income), depreciation of PP&E, amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses (gains) and income taxes.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

2012	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2012	\$ 1,456,238	\$ 25,476	\$ (19,865)	\$ (397,800)	\$ (3,972)	\$ (529,176)	\$ 4,891	\$ 535,792
Loss for the year	-	-	-	(139,342)	-	-	-	(139,342)
Other comprehensive loss	-	-	-	-	(1,504)	-	-	(1,504)
Distributions to unitholders	-	-	-	-	-	(87,549)	-	(87,549)
Trust Units issued in exchange of subscription receipts, net of tax and transaction costs	229,505	-	-	-	-	-	-	229,505
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	15,791	-	-	-	-	-	-	15,791
Trust Units issued on exchange of Class B Units	24	-	-	-	-	-	-	24
Trust Units issued under the Long-Term Incentive Plan ("LTIP"), net of cancellations and Trust Units released on settlement of LTIP receivable	1,127	(51)	(668)	-	-	-	-	408
Interest on LTIP receivable	-	-	(200)	-	-	-	-	(200)
Distributions applied against LTIP receivable	-	-	1,200	-	-	-	-	1,200
Unitholders' equity, December 31, 2012	\$ 1,702,685	\$ 25,425	\$ (19,533)	\$ (537,142)	\$ (5,476)	\$ (616,725)	\$ 4,891	\$ 554,125

During the year ended December 31, 2012, distributions were declared and paid at \$0.045 per unit per month. In the first two months of 2013, distributions were declared at \$0.045 per unit per month totalling \$15,626.

2011	Trust Units issued in dollars, net	Trust Units issued under LTIP	LTIP receivable	Accumulated losses	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, January 1, 2011	\$ 1,439,961	\$ 26,417	\$ (21,033)	\$ (334,469)	\$ (5,156)	\$ (451,638)	\$ 4,417	\$ 658,499
Loss for the year	-	-	-	(63,331)	-	-	-	(63,331)
Other comprehensive income	-	-	-	-	1,184	-	-	1,184
Distributions to unitholders	-	-	-	-	-	(77,538)	-	(77,538)
Trust Units issued under the DRIP	15,075	-	-	-	-	-	-	15,075
Trust Units issued on exchange of Class B Units	272	-	-	-	-	-	-	272
Trust Units issued under LTIP, net of cancellations and Trust Units released on settlement of LTIP receivable	930	(941)	146	-	-	-	474	609
Interest on LTIP receivable	-	-	(208)	-	-	-	-	(208)
Distributions applied against LTIP receivable	-	-	1,230	-	-	-	-	1,230
Unitholders' equity, December 31, 2011	\$ 1,456,238	\$ 25,476	\$ (19,865)	\$ (397,800)	\$ (3,972)	\$ (529,176)	\$ 4,891	\$ 535,792

During the year ended December 31, 2011, distributions were declared and paid at \$0.045 per unit per month. In the first two months of 2012, distributions were declared at \$0.045 per unit per month totalling \$13,046.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Note	2012	2011
Cash provided by (used in):			
Operating activities:			
Loss for the year		\$ (139,342)	\$ (63,331)
Items not affecting cash:			
Depreciation and amortization		203,920	173,399
Other expense (income)	22	20,294	(608)
Finance costs	23	127,167	103,331
Transaction costs		(12,995)	(1,280)
Mezzanine loan interest		(1,493)	(1,601)
Non-cash compensation expense		2,282	1,993
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	24	49,379	(2,932)
Current income taxes		296	330
Deferred income taxes		(21,977)	(14,127)
Change in trade and other receivables		(13,215)	3,897
Change in other assets		(1,415)	(3,977)
Change in accounts payable and other liabilities		1,293	12,266
		214,194	207,360
Interest received		5,673	5,418
Interest paid		(116,731)	(101,450)
Income taxes paid		(296)	(330)
Net cash provided by operating activities		102,840	110,998
Financing activities:			
Proceeds from mortgage financing, net of repayments on maturity		16,083	67,713
Changes to Credit Facility		24,000	2,000
Scheduled mortgage principal repayments		(47,049)	(40,731)
Net additions to finance costs		(4,469)	(2,809)
Trust Units issued pursuant to:			
Public offerings		204,287	–
Issue costs		(8,776)	–
Issue of convertible debentures		135,000	–
Redemption of convertible debentures		(75,000)	–
Convertible debenture issuance costs		(5,363)	–
Distributions paid		(69,354)	(61,357)
Deposits and repayments received under LTIP		663	478
Net cash provided by (used in) financing activities		170,022	(34,706)
Investing activities:			
Acquisition of assets under business combinations		(194,466)	(40,028)
Payment of deferred consideration on business combinations		(5,000)	(2,500)
Additions to PP&E and intangible assets		(91,827)	(73,248)
Development costs allocable to capital funding receivable		(5,749)	–
Proceeds from capital funding receivable		3,812	3,537
Proceeds from disposal of PP&E		593	21,718
Mezzanine loan collections		15,158	8,187
Change in restricted cash		(43)	1,783
Net cash used in investing activities		(277,522)	(80,551)
Decrease in cash and cash equivalents		(4,660)	(4,259)
Foreign exchange gain (loss) on U.S. dollar-denominated cash		(718)	218
Cash and cash equivalents, beginning of year		10,687	14,728
Cash and cash equivalents, end of year		\$ 5,309	\$ 10,687

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

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

Chartwell Retirement Residences ("Chartwell"), previously Chartwell Seniors Housing REIT, is an unincorporated open-ended trust governed by the laws of the Province of Ontario and created as of July 7, 2003 and subsisting under the Declaration of Trust. Chartwell's head office is located at 100 Milverton Drive, Suite 700, Mississauga, Ontario, L5R 4H1. Chartwell began operations on November 14, 2003. Chartwell's main business is ownership, operations and management of retirement and long term care communities in Canada and the United States.

Chartwell owns 100% of the outstanding Trust Units of CSH Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario, Canada, which in turn owns 66.8% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba, Canada. Class B Units of Master LP are held by non-controlling investors. Chartwell also has direct ownership of 33.2% of Class A Units of Master LP.

The Canadian assets of Chartwell are held by Master LP, which carries out the business of Chartwell. Its activities are financed through equity contributed by Chartwell, 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. Basis of preparation:

(a) Statement of compliance:

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

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2012. On March 6, 2013, the Board of Trustees authorized the financial statements for issue.

(b) Functional currency:

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

(c) Basis of measurement:

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

- (i) derivative financial instruments are measured at fair value;
- (ii) financial instruments classified as fair value through profit and loss ("FVTPL") are measured at fair value;
- (iii) financial instruments classified as available-for-sale are measured at fair value; and

(iv) liabilities for cash-settled, unit-based payment arrangements are measured at fair value.

(d) Use of estimates and judgments:

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

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

- (i) Note 2(e) - Impairment;
- (ii) Note 2(m)(iii) - Revenue recognition - allowance for doubtful accounts;
- (iii) Note 3 - Acquisitions; and
- (iv) Note 12(c) - LTIP.

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

- (i) Note 2(d)(i) - Intangible assets - licenses;
- (ii) Note 2(e) - Impairment;
- (iii) Note 3 - Acquisitions; and
- (iv) Note 25 - Income taxes.

2. Significant accounting policies:

(a) Basis of consolidation:

(i) Transactions eliminated on consolidation:

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

(ii) Jointly-controlled entities:

Joint ventures are those entities over which activities Chartwell has joint control, established by contractual agreement.

These consolidated financial statements include Chartwell's proportionate share of each of the assets, liabilities, revenue and income and expenses of the jointly-controlled entities on a line-by-line basis.

(iii) Business combinations:

All acquisitions occurring on and after January 1, 2010 are accounted for under the acquisition method under which all identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill represents the cost of acquired net assets in excess of their fair value. If the fair value of the net identifiable assets acquired exceeds the fair value of consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

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

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

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Chartwell's United States Operations at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations:

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

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

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

(c) PP&E:

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

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

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

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

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

Building components:	
Structure	36 - 40 years
Mechanical, electrical and elevators	10 - 20 years
Roof, windows and doors	5 - 15 years
Interior upgrades	3 - 5 years
Resident contracts and above- and below-market leases	1 - 3 years
Payment in lieu of taxes ("PILOT")	Term of agreement
Furniture, fixtures and equipment	3 - 5 years

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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

(i) Resident contracts:

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

(ii) Above- and below-market leases:

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 decrease, in the case of above-market resident contracts, to depreciation over the expected term of the associated resident occupancy, estimated at an average of three years for retirement properties and one year for long term care properties.

Above- and below-market leases are recorded as a component of buildings.

(iii) PILOT:

PILOT consists 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. PILOT is recorded as a component of buildings.

(d) Intangible assets:

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

(i) Licenses:

Licenses for the operation of long term care properties are considered to have indefinite lives. The licences are recorded at cost and are not amortized. Given the current demographic of the Canadian markets, as well as the fact that the demand for licensed beds is expected to increase beyond its current supply, management has determined that the licenses have an indefinite life.

(ii) Other intangible assets:

Other intangible assets consist of the allocated cost of acquired operating leases of seniors housing properties, management contracts, software costs and below-market management contracts.

The allocated cost of the operating leases is amortized on a straight-line basis over the initial lease term of the underlying operating leases.

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

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

Below-market management contracts represent the value of contractual agreements with third parties to provide management services for the operations of seniors residences owned by Chartwell. Below-market management contracts are amortized over the period in which the benefit will be realized.

(e) Impairment:

(i) Financial assets, excluding trade receivables:

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

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

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

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

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

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

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

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

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

(f) Capital funding:

Capital funding are grants received from the Government of Ontario for the construction costs of long term care properties. These government grants are initially recorded at fair value on acquisition and carried at amortized cost. The interest accretion on the grants is recognized in profit or loss as other income over the life of the grant.

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

(g) Non-current assets held for sale:

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

(h) Financial instruments:

(i) Non-derivative financial assets:

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

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

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

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

(ii) Non-derivative financial liabilities:

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

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

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

(iii) Derivative financial instruments:

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

Chartwell entered into an interest rate swap arrangement in order to reduce the impact of fluctuating interest rates on long-term debt. This swap agreement requires periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. In such cases, interest expense on the debt is adjusted to include the payments made or received under the interest rate swap arrangements. This swap arrangement is not designated as a hedging instrument under IFRS.

(iv) Financial liabilities measured at fair value:

Financial liabilities are measured at fair value when the financial liability is either held for trading or it is designated as FVTPL.

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

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

(i) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments. Short-term investments, comprising 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.

(j) Employee benefits:

(i) Short-term benefits:

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

Employee health benefits:

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

(ii) Long-term employee benefits:

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 unit credit method using management assumptions. Any net actuarial gain (loss) is recognized in profit or loss.

Chartwell provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis. A defined contribution plan is a post-employment benefit plan, whereby Chartwell contributes fixed amounts into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(iii) Unit-based payment plans:

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

(k) Income taxes:

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

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

Chartwell is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada) 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 income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

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

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

(l) Finance costs:

Finance costs comprise interest expense on borrowings calculated using the effective interest rate method, distributions classified as interest expense under IFRS on Class B Units and subscription receipts, mark-to-market adjustments on mortgages payable and convertible debentures issuance costs.

(m) Revenue recognition:

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

(i) Retirement community resident revenue:

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

(ii) Long term care community resident revenue:

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

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

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

(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 Chartwell and our assessment of the likelihood of collections.

(iv) Fee revenue:

- (a) Chartwell provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services and is recognized in the month in which services are performed in accordance with the terms of the management contract.
- (b) To the extent that ultimate collection of revenue is not reasonably assured, Chartwell will recognize revenue only as cash is received.

(n) Segment reporting:

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

Segment results that are reported to the senior executive committee include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general, administrative and trust expenses, fair value adjustments to financial instruments and deferred income taxes. The accounting policies applied by the segments are the same as those applied by Chartwell.

(o) Lease payments:

Chartwell maintains some properties in the United States that are classified as operating leases. These leased assets are not recognized in Chartwell's consolidated balance sheets, but payments made are recognized in profit or loss on a straight-line basis over the term of the lease.

(p) IFRS pronouncements:

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

In November 2009, the IASB issued IFRS 9 and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9"). In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. IFRS 9 replaces the guidance in IAS 39 and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

(ii) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

In May 2011, the IASB issued IFRS 10, with further amendments issued in June and October 2012. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

(iii) IFRS 11, Joint Arrangements ("IFRS 11"):

In May 2011, the IASB issued IFRS 11, with further amendments issued in June 2012. IFRS 11 replaces the guidance in IAS 31, Interests in Joint Ventures ("IAS 31") and focuses on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring interests in jointly-controlled entities to be accounted for under the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. It is expected that IFRS 11, when initially adopted, will have a significant impact on the Chartwell's financial statements as it had previously accounted for its interest in several properties using proportionate consolidation. However, Chartwell is not able at this time to estimate reasonably the impact that IFRS 11 will have on the consolidated financial statements.

(iv) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

In May 2011, the IASB issued IFRS 12, with further amendments issued in June 2012. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

(v) IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB published IFRS 13. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs. This new standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

(vi) Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued amendments to IAS 28. IAS 28 requires any retained portion of an investment in an associate or joint venture that has been classified as held for sale to be measured using the equity method, until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires for it to be continued to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 28 has not yet been determined.

(vii) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"):

In June 2011, the IASB amended IAS 1. This amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or

loss in the future from those that would never be reclassified to profit or loss. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 1 has not yet been determined.

(viii) Amendments to IAS 19, Employee Benefits ("IAS 19"):

In June 2011, the IASB amended IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in other comprehensive income (loss). It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. This amended standard is effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments to IAS 19 has not yet been determined.

(ix) Amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7, Financial Instruments - Disclosures ("IFRS 7"):

In December 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The IASB also amended IFRS 7 to include new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheets or subject to master netting arrangements or similar arrangements.

The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014, and the amendments to IFRS 7 are effective for fiscal periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 and IFRS 7 has not yet been determined.

(x) Annual Improvements to IFRSs 2009-2011 Cycle - various standards:

The IASB issued its Annual Improvements to IFRSs - 2009-2011 Cycle, part of the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after Jan 1, 2013, with retrospective application. The new cycle of improvements contains amendments to the several standards including: IAS 1, IAS 16, IAS 32, and IAS 34. The amendments to the standards are effective for Chartwell's interim and annual consolidated financial statements commencing January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2012:

On January 20, 2012, Chartwell acquired a 100% interest in the 70-suite Chartwell Select Georgian Traditions Retirement Residence in Collingwood, Ontario from Spectrum Seniors Holdings LP ("Spectrum") and its joint-venture partner. The purchase price before closing costs was \$15,500 and was settled through the assumption of debt of \$11,435, settlement of outstanding mezzanine loan of \$938, and settlement of outstanding accounts receivable of \$926, with the remaining balance, net of working capital adjustments, settled in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. Chartwell incurred acquisition-related costs of \$282, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Chartwell Select Georgian Traditions Retirement Residence has contributed revenue of \$2,288 and net loss of \$414 from the date of acquisition. The transaction was accounted for as a business combination under IFRS 3, Business Combinations ("IFRS 3").

On April 1, 2012, Chartwell purchased a 50% interest in the 97-suite Renaissance Retirement Residence located in Kamloops, British Columbia from Spectrum. The purchase price before closing costs was \$7,525 and was settled through the assumption of debt of \$4,691, settlement of outstanding mezzanine loan of \$699, and settlement of outstanding accounts receivable of \$826, with the remaining balance, net of working capital adjustments, settled in cash. This transaction is in line with Chartwell's strategy to increase its ownership in properties it operates. Chartwell incurred acquisition-related costs of \$100, which have been expensed in other expense (income) in the consolidated statements of comprehensive loss. Renaissance Retirement Residence has contributed revenue of \$816 and net loss of \$232 from the date of acquisition, at 50% ownership. The transaction was accounted for as a joint venture under IAS 31. Chartwell is proportionately consolidating this property.

On May 1, 2012, Chartwell and Health Care REIT Inc. ("HCN") completed the acquisition of a portfolio of 42 retirement communities (the "Properties") located in Ontario, Quebec, British Columbia and Alberta ("Maestro portfolio"). Under the terms of the purchase and sale agreement, Chartwell and HCN each acquired a 50% interest in 39 communities ("JV properties"). In addition, HCN acquired the three other communities ("HCN Properties"). Under the terms of the co-ownership agreement, Chartwell and HCN share equally in the risks and rewards of the investment in the JV properties. The co-ownership structure provides for major decisions to be made by a board comprised of an equal number of members from Chartwell and HCN. Dispute resolution and liquidity mechanisms are included.

Under the terms of the co-ownership agreement, the parties are subject, with limited exceptions, to certain non-competition restrictions within specified geographic zones surrounding the Properties. Chartwell and HCN have agreed to offer to each other the opportunity to co-invest in additional Canadian seniors housing properties within these geographic zones. In addition, HCN has granted Chartwell the option to purchase a 50% interest in the three HCN Properties at the higher of fair market value and HCN's investment in the HCN Properties during the term of the co-ownership agreement, provided that Chartwell continues to manage the HCN Properties.

The Properties will be managed by Chartwell pursuant to a management agreement, which provides for: (i) a base fee equal to 5% of gross revenue from each property; and (ii) an incentive fee equal to 10% for outperformance, or a reduction of 10% for underperformance, relative to approved annual operating targets, provided that the total management fee paid to Chartwell does not exceed 6% of gross revenue from the Properties and is not less than 4% of gross revenue from the Properties.

In respect of the three HCN Properties, the management agreement will have an initial term of three years, with one year renewal options at HCN's election. Both Chartwell and HCN have the right to terminate the management agreement on 180-days notice in respect of the HCN Properties. In respect of the JV properties, the management agreement will have an initial term of three years and will automatically renew for three-year terms provided that the co-ownership agreement remains in effect.

The 100% purchase price for the JV properties was \$843,815 and was settled by the assumption of mortgage debt of \$449,809, not including market-to-mark adjustments of \$20,541, with the remaining balance, net of working capital adjustments, settled in cash. Chartwell's share of the net purchase price was partially funded from the proceeds of subscription receipts (note 15). This acquisition is consistent with Chartwell's strategy to focus on its core business and expand its presence in existing Canadian markets. This transaction was accounted for as a business combination under IFRS 3. Chartwell is proportionately consolidating these assets.

In connection with the Maestro portfolio acquisition, Chartwell incurred acquisition-related costs of \$11,272. These costs have been expensed in other expense (income) in the consolidated statements of comprehensive loss.

In the eight-month period ended December 31, 2012, the JV properties contributed revenue of \$61,005 and net loss of \$14,222 at 50% ownership. If the acquisition had occurred at January 1, 2012, extrapolating the results of this portfolio for the eight-month period ended December 31, 2012, management estimates that the revenue would have been \$91,508 and the net loss for the period would have been \$21,333 at 50% ownership.

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred at Chartwell's ownership, which may be adjusted in future periods:

Date of acquisition Segment	January 20, 2012	April 1, 2012	May 1, 2012	
	Canadian Retirement Operations			
Location	Province of Ontario (70 suites)	Province of British Columbia (97 suites)	Various provinces (7,662 suites)	Total
PP&E	\$ 15,500	\$ 7,525	\$ 432,178	\$ 455,203
Other liabilities	(423)	(121)	(503)	(1,047)
Mortgages assumed	(11,435)	(4,691)	(235,175)	(251,301)
Net assets acquired	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855
Discharge of mezzanine loan receivable	\$ 938	\$ 699	\$ -	\$ 1,637
Settlement of accounts receivable	926	826	-	1,752
Cash consideration	1,778	1,188	196,500	199,466
Total consideration transferred	\$ 3,642	\$ 2,713	\$ 196,500	\$ 202,855

(b) Acquisitions during the year ended December 31, 2011:

The following are the acquisitions that occurred during the year ended December 31, 2011:

Property	Ownership interest	Date acquired
Chartwell Classic Robert Speck Seniors Housing	33.3%	April 1, 2011
Chatsworth Retirement Suites and Bungalows ⁽¹⁾	50.0%	May 10, 2011
ING Portfolio ⁽¹⁾	50.0%	November 1, 2011

⁽¹⁾ Upon completion of this acquisition, Chartwell owns 100% of this portfolio.

During the year ended December 31, 2011, Chartwell acquired varying interests in 17 seniors housing communities (3,164 suites). The following table summarizes the allocation of the purchase price to each major class of assets acquired and liabilities assumed at the date of acquisition:

PP&E	\$ 199,474
Other assets	507
Mortgages assumed	(153,158)
Net assets acquired	\$ 46,823
Discharge of mezzanine loans receivable	\$ 2,113
Settlement of accounts receivable	1,087
Cash consideration	40,028
Gain recorded on remeasurement of previously held equity interest on acquisition	3,595
Total consideration	\$ 46,823

4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost or deemed cost						
Balance, January 1, 2011	\$ 281,050	\$ 2,274,783	\$ 53,030	\$ 16,648	\$ 21,663	\$ 2,647,174
Additions	–	27,437	8,099	35,741	1,875	73,152
Additions through business combinations	23,419	136,800	5,275	–	–	165,494
Disposals	(6,600)	(57,432)	(1,457)	–	(5,400)	(70,889)
Derecognition	–	(8,636)	(1,701)	–	–	(10,337)
Transfers	(5,040)	–	–	4,775	265	–
Exchange differences on translation of United States Operations	1,661	16,085	381	113	137	18,377
Balance, December 31, 2011	294,490	2,389,037	63,627	57,277	18,540	2,822,971
Additions	–	29,085	13,964	47,717	507	91,273
Additions through business combinations	45,966	394,254	9,845	–	5,138	455,203
Disposals	–	–	–	–	(268)	(268)
Derecognition	–	(7,633)	(3,012)	–	–	(10,645)
Transfers ⁽¹⁾	6,219	66,665	4,976	(78,873)	–	(1,013)
Transfers to assets held for sale	(10,228)	(107,015)	(1,945)	–	–	(119,188)
Exchange differences on translation of United States Operations	(2,148)	(18,739)	(577)	(26)	(143)	(21,633)
Balance, December 31, 2012	\$ 334,299	\$ 2,745,654	\$ 86,878	\$ 26,095	\$ 23,774	\$ 3,216,700
Accumulated depreciation and impairment losses						
Balance, January 1, 2011	\$ –	\$ 148,291	\$ 13,707	\$ –	\$ –	\$ 161,998
Depreciation	–	155,480	15,364	–	–	170,844
Disposals due to step acquisitions	–	(32,318)	(1,662)	–	–	(33,980)
Disposals	–	(8,756)	(407)	–	–	(9,163)
Derecognition	–	(8,636)	(1,701)	–	–	(10,337)
Impairment	–	11,200	–	1,880	–	13,080
Exchange differences on translation of United States Operations	–	3,710	278	–	–	3,988
Balance, December 31, 2011	–	268,971	25,579	1,880	–	296,430
Depreciation	–	181,577	18,806	–	–	200,383
Derecognition	–	(7,633)	(3,012)	–	–	(10,645)
Transfers to assets held for sale	–	(21,807)	(1,314)	–	–	(23,121)
Impairment	–	20,661	–	542	–	21,203
Exchange differences on translation of United States Operations	–	(2,234)	(259)	–	–	(2,493)
Balance, December 31, 2012	\$ –	\$ 439,535	\$ 39,800	\$ 2,422	\$ –	\$ 481,757
Carrying amounts						
Balance, December 31, 2011	\$ 294,490	\$ 2,120,066	\$ 38,048	\$ 55,397	\$ 18,540	\$ 2,526,541
Balance, December 31, 2012	334,299	2,306,119	47,078	23,673	23,774	2,734,943

⁽¹⁾For the year ended December 31, 2012, Chartwell transferred \$1,013 from Properties under development to Intangibles (note 5).

Chartwell capitalized \$1,843 of borrowing costs related to development projects under construction for the year ended December 31, 2012, at an average capitalization rate of 5.33%. During the year ended December 31, 2011, Chartwell capitalized \$1,303 of borrowing costs related to development projects under construction at an average capitalization rate of 5.43%.

The following are the transactions that occurred during the year ended December 31, 2012:

Chartwell disposed of vacant land in Magog, Quebec for \$537 on April 5, 2012. As a result of this transaction, Chartwell recorded a gain of \$269 included in other expense (income) (note 22).

Chartwell purchased two parcels of land from a company controlled by one of the executives of Chartwell. The total consideration was \$507 and the executive was not involved in the approval process to purchase the land.

Chartwell completed an assessment of PP&E for the year ended December 31, 2012 to determine if any events have occurred that would indicate possible impairment of PP&E. In the case of three properties, included in the Canadian retirement operations, indicators existed based on operational results and management forecasts, that the asset's recoverable amount may be lower than its carrying amount. Chartwell completed an assessment of the recoverable amount of these assets or cash generating units comparing the higher of (a) the fair value less costs to sell and (b) value in use to the carrying value. On assessment it was determined that the fair value less costs to sell would be used to evaluate the recoverable amount. Chartwell determines the fair value less cost to sell based on historical transactions completed and transactions that have occurred in the market. As the result of the assessment completed on these properties and the write-off of certain development costs, an impairment loss of \$21,203 was recognized in other expense (income) (note 22).

The following are the transactions that occurred during the year ended December 31, 2011:

- (a) Chartwell purchased a parcel of development land in Hamilton, Ontario for cash consideration of \$1,875.
- (b) On July 31, 2011, Chartwell disposed of one retirement community, the assets and liabilities of which were included in the Canadian Retirement Operations segment. The sale price was \$70,000, of which \$1,500 was held in escrow to provide the purchaser with income protection until the expiration of current resident incentives and the achievement of 97% occupancy or higher for a consecutive three-month period. The purchaser assumed an existing debt of \$47,026, with the balance, net of working capital adjustments, received in cash. As a result of this transaction, Chartwell recorded a gain on sale of \$5,926 included in other expense (income) (note 22).

5. Intangible assets:

	Licenses	Other ⁽¹⁾	Total
Cost			
Balance, January 1, 2011	\$ 44,334	\$ 13,325	\$ 57,659
Additions	—	3,031	3,031
Disposals	—	(524)	(524)
Exchange differences on translation of United States Operations	—	302	302
Balance, December 31, 2011	44,334	16,134	60,468
Additions	—	554	554
Transfers	—	1,013	1,013
Derecognition	—	(2,935)	(2,935)
Exchange differences on translation of United States Operations	—	(307)	(307)
Balance, December 31, 2012	\$ 44,334	\$ 14,459	\$ 58,793
Accumulated amortization and impairment losses			
Balance, January 1, 2011	\$ —	\$ 4,919	\$ 4,919
Amortization	—	2,555	2,555
Exchange differences on translation of United States Operations	—	115	115
Balance, December 31, 2011	—	7,589	7,589
Amortization	—	3,537	3,537
Derecognition	—	(2,935)	(2,935)
Exchange differences on translation of United States Operations	—	(173)	(173)
Balance, December 31, 2012	\$ —	\$ 8,018	\$ 8,018
Carrying amounts			
Balance, December 31, 2011	\$ 44,334	\$ 8,545	\$ 52,879
Balance, December 31, 2012	44,334	6,441	50,775

⁽¹⁾ Other intangible assets consist of the allocated cost of acquired operating leases of senior housing properties, below-market management contracts and software costs.

During the year ended December 31, 2011, Chartwell disposed of its ownership interest in Horizon Bay Chartwell ("HBC") and Horizon Bay Chartwell II ("HBCII") to Horizon Bay Realty LLC ("HBR") with a carrying value of net assets of \$524. In exchange, Chartwell entered into below-market management contracts with Brookdale Senior Living Inc. for 45 communities in the United States with a fair value of \$2,935 (U.S. \$3,000). A net gain of \$1,848, net of disposition costs and working capital adjustments of \$563, was recorded in other expense (income) (note 22).

6. *Mezzanine loans receivable:*

The following table summarizes mezzanine loans receivable:

		Net balance, principal amount less lending expenses	
	Contractual interest rate	2012	2011
Gross value of mezzanine loans receivable	10% - 14%	\$ 6,426	\$ 23,243
Fees recorded as a reduction of mezzanine loan balances		(384)	(480)
Provision for mezzanine loans receivable		(6,042)	(13,110)
Net book value of mezzanine loans receivable		\$ -	\$ 9,653

On October 16, 2012, Spectrum completed sales of two of its retirement residences to a third party and paid \$16,618 to Chartwell in full settlement of its obligations. The parties provided full and final releases to each other with respect to their obligations under various settlement, mezzanine loan, and management and development agreements. As a result, for the year ended December 31, 2012, Chartwell recorded a reduction of carrying balances of its mezzanine loans receivable of \$4,435, and reversal of previously recorded impairment provisions for mezzanine loans and accounts receivable of \$9,399 (note 22). The remaining proceeds were recorded as mezzanine loan interest, management fee income and reimbursements of certain expenses, as applicable.

During the year ended December 31, 2012, two mezzanine loans were settled as partial consideration of the acquisition of properties (note 3).

During the year ended December 31, 2012 one additional mezzanine loan in the amount of \$2,607 was paid in cash.

7. *Capital funding receivable:*

The following table summarizes the capital funding receivable activity:

	Amount
Balance, January 1, 2011	\$ 62,657
Capital funding applied to receivable in the year	(3,537)
Balance, December 31, 2011	59,120
Development costs allocable to capital funding receivable	5,749
Capital funding applied to receivable in the year	(3,812)
Balance, December 31, 2012	\$ 61,057

The capital funding receivable of \$61,057 (2011 - \$59,120) represents the present value of the funding receivable from the Government of Ontario in respect of 14 long term care properties. The weighted average remaining term of this funding is approximately 12.6 years with the discount rate used based on applicable Ontario Government Bond Rates. The receipt of funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long term care communities for the remaining period.

8. Other assets:

	2012	2011
Prepaid expenses and deposits	\$ 12,939	\$ 9,292
Restricted cash	13,952	11,625
Lease purchase option	4,253	4,362
Other assets	4,360	9,218
	<hr/>	<hr/>
	\$ 35,504	\$ 34,497
Current	\$ 28,318	\$ 27,153
Non-current	7,186	7,344
	<hr/>	<hr/>
	\$ 35,504	\$ 34,497

Restricted cash relates primarily to capital expenditure reserves required in the United States for certain mortgages and an operating income deposit related to the acquisition of the Maestro portfolio.

9. Assets and liabilities held for sale:

On May 22, 2012, Chartwell and joint venture partner entered into agreements to sell five properties in the United States. The sale price for 100% interest is \$288,521 (U.S. \$290,000). The purchaser is expected to assume debt with an outstanding balance of \$197,028 (U.S. \$198,038) as of December 31, 2012 with the balance, net of working capital adjustments and holdbacks, settled in cash. Chartwell's interest in these properties is 50%. This transaction closed on February 13, 2013 (note 29).

The following table summarizes the significant assets and liabilities held for sale on December 31, 2012:

Assets classified as held for sale:		
Trade and other receivables		\$ 445
Other assets		892
PP&E, net		96,067
		<hr/>
		\$ 97,404
Liabilities classified as held for sale:		
Accounts payable and other liabilities		\$ 2,312
Mortgages payable		97,657
		<hr/>
		\$ 99,969

On December 19, 2012, Chartwell announced that the previously-announced agreement to sell the 100% ownership in six U.S. properties, aggregating 1,221 independent living suites located in Michigan, Tennessee, Oklahoma, Alabama and Ohio, to Harvest Facility Holdings LP (the "Purchaser") had been terminated by the Purchaser. As a result Chartwell will continue to own these properties. As at December 31, 2012, Chartwell has determined these properties no longer meet the criteria to be treated as assets held for sale. Chartwell recorded PP&E amortization of \$4,184 when these properties were removed from assets held for sale.

10. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about Chartwell's exposure to interest rates, foreign currency and liquidity risk see note 19.

The mortgages payable as at December 31, 2012 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt	Weighted average interest rate of maturing debt %
2013	\$ 48,385	\$ 236,463	\$ 284,848	14%	4.83%
2014	42,895	215,496	258,391	13%	4.44%
2015	40,292	263,113	303,405	15%	4.85%
2016	34,982	290,389	325,371	16%	6.12%
2017	25,464	253,722	279,186	14%	5.64%
2018	26,147	41,359	67,506	3%	5.43%
2019	26,184	10,591	36,775	2%	6.07%
2020	26,227	48,899	75,126	4%	4.35%
2021	24,076	50,150	74,226	4%	4.59%
2022	20,388	54,567	74,955	4%	3.61%
2023	16,402	14,224	30,626	2%	6.07%
2024	12,277	17,394	29,671	2%	7.13%
Thereafter	114,155	21,384	135,539	7%	4.97%
	<u>\$ 457,874</u>	<u>\$ 1,517,751</u>	1,975,625	<u>100%</u>	

Mark-to-market adjustments on acquisition		20,477
Financing costs		(16,752)
		<u>\$ 1,979,350</u>
Current		\$ 282,223
Non-current		1,697,127
		<u>\$ 1,979,350</u>

	2012	2011
Mortgages at fixed rates:		
Mortgages (principal)	\$1,807,985	\$1,784,835
Interest rates	2.10% - 10.00%	2.50% - 10.00%
Weighted average interest rate	5.31%	5.54%
Mortgages at variable rates:		
Mortgages (principal)	\$167,640	\$95,698
Interest rates	Lenders COF plus 2.00% to prime plus 2.50%	Lenders COF plus 2.00% to prime plus 2.50%
Weighted average interest rate	4.42%	4.37%
Blended weighted average rate	5.23%	5.48%

(b) Credit Facility:

Chartwell has arranged for an \$85,000 Credit Facility. Amounts outstanding under the Credit Facility bear interest at the bank's prime rate plus 1.25% or the applicable bankers' acceptance rate plus 2.25%. 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 charges on specific properties. The Credit Facility was entered into on June 23, 2012 and now matures on June 22, 2013. At December 31, 2012, the maximum available borrowing capacity under the Credit Facility was \$85,000 (2011 - \$85,000) based on the security provided. Of this capacity, \$2,807 (2011 - \$2,253) has been allocated to support various letters of credit issued by Chartwell. As at December 31, 2012, \$77,000 (2011 - \$53,000) was outstanding under the Credit Facility.

11. Convertible debentures:

Chartwell has elected to designate convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.7% convertible debentures at December 31, 2012, was \$109.00.

Chartwell has the following series of convertible debentures outstanding:

	2012	2011
5.9% convertible debentures:		
Principal	\$ —	\$ 75,000
Fair value	—	76,425
5.7% convertible debentures:		
Principal	\$ 135,000	\$ —
Fair value	147,150	—

On March 9, 2012, Chartwell issued \$135,000 of convertible, unsecured, subordinated debentures ("5.7% convertible debentures") pursuant to a prospectus dated March 2, 2012, for cash proceeds of \$129,637, net of issuance costs.

On March 16, 2012, Chartwell redeemed the 5.9% convertible debentures totalling \$75,000 for face value plus accrued interest of \$1,649 for \$76,649 in cash.

The 5.7% convertible debentures bear interest at an annual rate of 5.7%, payable semi-annually in arrears on March 31 and September 30 in each year, and commenced on September 30, 2012. Each 5.7% convertible debenture is convertible into freely-tradable Trust Units of Chartwell at the option of the holder at any time prior to the earlier of March 31, 2018, and the last business day immediately preceding the date specified by Chartwell for redemption of the 5.7% convertible debentures, at a conversion price of \$11.00 per Trust Unit. Holders converting their 5.7% convertible debentures will be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid interest thereon for the period from the last interest payment date on their 5.7% convertible debentures up to and including the last record date set by Chartwell prior to the date of conversion for determining the unitholders entitled to receive a distribution on Chartwell Units. In the event Chartwell has suspended regular distributions, then the 5.7% convertible debentures holders, in addition to the applicable number of Trust Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last payment date prior to the date of conversion.

The 5.7% convertible debentures are not redeemable by Chartwell before March 31, 2015, except in the event of satisfaction of certain conditions after a change in control has occurred. On or after March 31, 2015, but prior to March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume-weighted average trading price, as defined in Chartwell Indenture, is not less than 125% of the conversion price. On or after March 31, 2017, the 5.7% convertible debentures may be redeemed by Chartwell in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

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

12. Accounts payable and other liabilities:

	Note	2012	2011
Accounts payable and accrued liabilities		\$ 94,720	\$ 93,326
Resident deposits		3,852	4,014
Deferred revenue		9,786	6,897
Deferred Trust Units	(a)	5,292	3,013
Restricted Trust Units	(b)	732	676
Fair value of LTIP option component	(c)	6,479	3,731
Other liabilities		211	840
		\$ 121,072	\$ 112,497

(a) Deferred Unit Plan:

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

As described in note 2(j)(iii), under IFRS, this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the consolidated balance sheets. Deferred Trust Units values are initially calculated based on the grant date fair value. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The liability is remeasured to fair value at each reporting date until the liability is settled. Distributions on Deferred Trust Units are included in general, administrative and trust expenses in profit or loss. The liability is released to equity after retirement of the director. The market ask price of Trust Units as at December 31, 2012 was \$10.90.

The following table summarizes the Deferred Trust Unit activity:

	Units outstanding	Amount
Balance, January 1, 2011	208,834	\$ 1,363
Units granted	127,449	1,054
Reinvested distributions	18,267	141
Change in fair value	–	455
Balance, December 31, 2011	354,550	3,013
Units granted	107,668	1,040
Reinvested distributions	23,287	221
Change in fair value	–	1,018
Balance, December 31, 2012	485,505	\$ 5,292

(b) 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 Trust Units, as defined in the plan, on the date distributions are paid. Restricted Units are recognized as compensation expense over the service period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is remeasured to fair value at each reporting date until the liability is settled.

The Restricted Unit Plan was amended, effective January 1, 2012, to provide that the amounts payable to certain participants on vesting will be determined based on the extent to which Chartwell has achieved certain adjusted funds from operations targets over a three-year period.

During the year ended December 31, 2012, 85,841 notional Trust Units were issued, 15,269 units were cancelled, 13,499 units were issued related to reinvested distributions, and 97,734 units vested and were paid out. At December 31, 2012, 154,346 notional Trust Units remained outstanding.

(c) LTIP (note 15(b)):

Chartwell's recourse on the LTIP receivable is limited to Chartwell Units it holds as security. The limited recourse nature of the LTIP receivable effectively provides a participant with a put option as the participant may elect to surrender the LTIP Units in full satisfaction of the LTIP receivable. The fair value of this option is measured using the Monte Carlo simulation method. The following table summarizes the assumptions used to determine the fair value of the LTIP option component:

	2012	2011
Expected volatility	13.7 - 17.1%	18.0 - 23.0%
Risk free rate	1.5 - 2.2%	1.2 - 2.2%
Distribution yield	4.0 - 4.9%	5.1 - 6.2%

13. *Deferred consideration on business combinations:*

Deferred consideration on business combinations relates to one (2011 - two) previously completed property acquisitions.

14. *Class B Units:*

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability under IFRS. Chartwell has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. The market ask price of Chartwell Units as at December 31, 2012 was \$10.90 (2011 - \$8.50).

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. Under IFRS, these distributions are included in finance costs in the consolidated statements of comprehensive loss.

	Units outstanding	Amount
Balance, January 1, 2011	1,714,652	\$ 14,027
Exchange of Class B Units into Trust Units	(33,127)	(272)
Change in fair value	–	537
Balance, December 31, 2011	1,681,525	14,292
Exchange of Class B Units into Trust Units	(2,397)	(24)
Change in fair value	–	4,034
Balance, December 31, 2012	1,679,128	\$ 18,302

15. *Unitholders' equity and LTIP:*

(a) Trust Units:

Chartwell is authorized to issue unlimited Trust Units.

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

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

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

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, January 1, 2011	140,598,132	\$ 1,439,961
Trust Units issued under DRIP	1,966,054	15,075
Trust Units issued in exchange of Class B Units	33,127	272
Trust Units released on settlement of LTIP receivable	94,313	930
Balance, December 31, 2011	142,691,626	1,456,238
Trust Units issued under DRIP	1,703,174	15,791
Trust Units issued in exchange of Class B Units	2,397	24
Trust Units released on settlement of LTIP receivable	131,533	1,127
Trust Units issued in exchange of subscription receipts, net of tax and transaction costs (d)	24,913,125	229,505
Balance, December 31, 2012	169,441,855	\$ 1,702,685

(b) LTIP:

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 LTIP Units are issued over a 10-year fixed period. All distributions on Trust Units under the LTIP are applied as payments, first of interest and then of 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 Trust LTIP Units in satisfaction of the outstanding receivable amounts. Chartwell's recourse is limited to Trust Units it holds as security.

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 2,207,464 (2011 - 2,192,845) were issued and 3,693,426 (2011 - 3,708,045) were available to be issued at December 31, 2012.

The following table summarizes Trust Units issued under the LTIP:

	Number of Trust Units issued under LTIP	Amount
Balance, January 1, 2011	2,244,858	\$ 26,417
Trust Units issued under LTIP	166,983	1,423
Trust Units surrendered for cancellation under LTIP	(124,683)	(1,434)
Trust Units released on settlement of LTIP receivable	(94,313)	(930)
Balance, December 31, 2011	2,192,845	25,476
Trust Units issued under LTIP	293,042	2,740
Trust Units surrendered for cancellation under LTIP	(146,890)	(1,664)
Trust Units released on settlement of LTIP receivable	(131,533)	(1,127)
Balance, December 31, 2012	2,207,464	\$ 25,425

The compensation expense attributable to the LTIP of \$240 for the year ended December 31, 2012 (2011 - \$358) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities. The LTIP receivable is also recognized in unitholders' equity. Distributions received on Trust Units issued under the LTIP are charged to unitholders' equity while interest received on LTIP receivable is credited to distributions.

(c) DRIP:

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

(d) Subscription receipts:

In March 2012, Chartwell completed a bought deal offering of 24,913,125 subscription receipts at a price of \$8.20 per subscription receipt for gross cash proceeds of \$204,287. Upon closing of the acquisition of the Maestro portfolio on May 1, 2012, each outstanding subscription receipt was exchanged for one unit of Chartwell. Immediately prior to conversion to Trust Units, the subscription receipts were adjusted to fair value and \$229,505, net of tax and transaction costs, was recorded in unitholders' equity. Chartwell recognized a corresponding loss during the year ended December 31, 2012 of \$29,647 due to the change in fair value. This loss has been recorded in the consolidated statements of comprehensive loss as changes in fair values of financial instruments and unrealized foreign exchange losses (gains) (note 24). Chartwell incurred transaction-related costs of \$8,776, before tax effect, recorded in unitholders' equity.

16. Segmented information:

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

The accounting policies of each of the segments are the same as those for Chartwell. 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.

2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
Resident Management and other fees	\$ 429,610	\$ 206,166	\$ 238,727	\$ 874,503	\$ -	\$ 874,503
Mezzanine loan interest	-	-	-	-	7,725	7,725
	-	-	-	-	1,493	1,493
	429,610	206,166	238,727	874,503	9,218	883,721
Expenses:						
Direct operating	276,675	179,307	159,332	615,314	-	615,314
General, administrative and trust	-	-	-	-	26,166	26,166
	276,675	179,307	159,332	615,314	26,166	641,480
Income (loss) before the undernoted ⁽¹⁾	152,935	26,859	79,395	259,189	(16,948)	242,241
Finance costs (recovery):						
Contractual interest	50,871	13,436	51,106	115,413	3,444	118,857
Other	44	(1,719)	1,132	(543)	8,853	8,310
Property lease expense	126	269	2,109	2,504	-	2,504
Other expense (income):						
Interest	(234)	(3,405)	-	(3,639)	(541)	(4,180)
Other	29,491	-	882	30,373	(5,899)	24,474
Depreciation of PP&E and amortization of intangible assets	117,923	9,217	75,186	202,326	1,594	203,920
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	-	(456)	-	(456)	49,835	49,379
	198,221	17,342	130,415	345,978	57,286	403,264
Income (loss) before income taxes	(45,286)	9,517	(51,020)	(86,789)	(74,234)	(161,023)
Income tax expense (benefit)	-	-	311	311	(21,992)	(21,681)
Net income (loss)	\$ (45,286)	\$ 9,517	\$ (51,331)	\$ (87,100)	\$ (52,242)	\$ (139,342)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 455,203	\$ -	\$ -	\$ 455,203	\$ -	\$ 455,203
Capital additions	63,678	13,211	10,549	87,438	4,389	91,827

⁽¹⁾ Refers to income (loss) before finance costs (recovery), property lease expense, other expense (income), depreciation of PP&E and amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses (gains) and income taxes.

2011	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Revenue:						
Resident Management and other fees	\$ 355,723	\$ 200,221	\$ 194,690	\$ 750,634	\$ -	\$ 750,634
Mezzanine loan interest	-	-	-	-	3,137	3,137
	-	-	-	-	1,601	1,601
	355,723	200,221	194,690	750,634	4,738	755,372
Expenses:						
Direct operating	227,874	174,622	129,636	532,132	-	532,132
General, administrative and trust	-	-	-	-	24,758	24,758
	227,874	174,622	129,636	532,132	24,758	556,890
Income (loss) before the undernoted ⁽¹⁾	127,849	25,599	65,054	218,502	(20,020)	198,482
Finance costs (recovery):						
Contractual interest	43,159	13,965	37,624	94,748	5,941	100,689
Other	1,458	(1,689)	1,556	1,325	1,317	2,642
Property lease expense	126	269	2,025	2,420	-	2,420
Other expense (income):						
Interest	-	(3,480)	-	(3,480)	(337)	(3,817)
Other	(3,888)	1,514	5,583	3,209	-	3,209
Depreciation of PP&E and amortization of intangible assets	98,539	9,064	64,437	172,040	1,359	173,399
Changes in fair values of financial instruments and unrealized foreign exchange gains	-	-	-	-	(2,932)	(2,932)
	139,394	19,643	111,225	270,262	5,348	275,610
Income (loss) before income taxes	(11,545)	5,956	(46,171)	(51,760)	(25,368)	(77,128)
Income tax benefit	-	-	-	-	(13,797)	(13,797)
Net income (loss)	\$ (11,545)	\$ 5,956	\$ (46,171)	\$ (51,760)	\$ (11,571)	\$ (63,331)
Expenditures for non-current assets:						
Acquisition - properties, land held for development, limited life intangible assets, licenses and other assets	\$ 23,590	\$ -	\$ 175,884	\$ 199,474	\$ -	\$ 199,474
Capital additions	50,913	6,254	19,016	76,183	-	76,183

⁽¹⁾ Refers to income (loss) before finance costs (recovery), property lease expense, other expense (income), depreciation of PP&E and amortization of intangible assets, changes in fair values of financial instruments and unrealized foreign exchange losses (gains) and income taxes..

2012	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Operating assets	\$ 1,859,174	\$ 293,810	\$ 844,878	\$ 2,997,862	\$ 7,426	\$ 3,005,288
Operating liabilities	\$ 1,183,718	\$ 236,905	\$ 763,281	\$ 2,183,904	\$ 267,259	\$ 2,451,163

2011	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Consolidated
Operating assets	\$ 1,417,988	\$ 333,934	\$ 928,801	\$ 2,680,723	\$ 25,798	\$ 2,706,521
Operating liabilities	\$ 958,046	\$ 243,848	\$ 789,681	\$ 1,991,575	\$ 179,154	\$ 2,170,729

17. Joint venture operations:

At December 31, 2012, Chartwell has an interest in a number of jointly-controlled entities, which have been accounted for under the proportionate consolidation method. The following table presents Chartwell's ownership interests in the significant jointly-controlled entities:

	2012	2011
Chartwell-HCN (Canadian) ⁽¹⁾	50%	—
Bristol Holdings LLC (U.S.) ⁽²⁾	50%	50%
Other Canadian joint ventures ⁽³⁾	Various	Various

⁽¹⁾ On May 1, 2012, Chartwell acquired 50% interest in this joint venture, which has 39 retirement properties in Canada.

⁽²⁾ At December 31, 2011, this joint venture owns 50% interest in five properties located in New York State. At December 31, 2012, these properties are classified as held for sale.

⁽³⁾ Includes interests in seven separate joint ventures at December 31, 2011. At December 31, 2012, Chartwell holds a 50% interest in seven joint ventures and a 33% interest in one joint venture.

The following is the summarized financial information in respect of the interests in these significant jointly-controlled entities at Chartwell's share:

	As at and for the year ended	
	2012	2011
Chartwell-HCN (Canadian)	\$ 12,846	\$ –
Bristol Holdings LLC (U.S.)	98,355	2,726
Other Canadian joint ventures	1,731	1,620
Total current assets	\$ 112,932	\$ 4,346
Chartwell-HCN (Canadian)	\$ 416,770	\$ –
Bristol Holdings LLC (U.S.)	–	100,908
Other Canadian joint ventures	103,143	100,624
Total non-current assets	\$ 519,913	\$ 201,532
Total assets	\$ 632,845	\$ 205,878
Chartwell-HCN (Canadian)	\$ 56,613	\$ –
Bristol Holdings LLC (U.S.)	99,969	3,673
Other Canadian joint ventures	37,777	30,074
Total current liabilities	\$ 194,359	\$ 33,747
Chartwell-HCN (Canadian)	\$ 178,914	\$ –
Bristol Holdings LLC (U.S.)	–	99,821
Other Canadian joint ventures	39,276	42,140
Total non-current liabilities	\$ 218,190	\$ 141,961
Total liabilities	\$ 412,549	\$ 175,708
Chartwell-HCN (Canadian)	\$ 61,005	\$ –
Bristol Holdings LLC (U.S.)	25,253	24,489
Other Canadian joint ventures	15,677	13,820
Total revenue	\$ 101,935	\$ 38,309
Chartwell-HCN (Canadian)	\$ 75,227	\$ –
Bristol Holdings LLC (U.S.)	24,788	26,148
Other Canadian joint ventures	17,693	15,874
Total expenses	\$ 117,708	\$ 42,022

18. Significant subsidiaries:

The following subsidiaries represent significant operations of Chartwell:

	Equity interest
Chartwell Master Care LP	100%
CSH Master Care USA Inc.	100%

19. Financial instruments and financial risk management:

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

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

	Note	2012		2011	
		Carrying value	Fair value	Carrying value	Fair value
Financial assets:					
Loans and receivables recorded at amortized cost:					
Mezzanine loans receivable	6	\$ -	\$ -	\$ 9,653	\$ 9,653
Financial liabilities:					
Financial liabilities recorded at amortized cost:					
Mortgages payable	10(a)	1,979,350	2,097,244	1,876,266	2,035,575
Credit Facility	10(b)	77,000	77,000	53,000	53,000

Fair value represents management's estimates of the market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The above table excludes cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and distributions payable as the carrying amount of these assets and liabilities are a reasonable approximation of fair value and are disclosed elsewhere in these consolidated financial statements.

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) Due to the short-term nature of the mezzanine loans receivable and the Credit Facility these financial instruments carrying value approximate fair value.
- (ii) The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2012, the mortgages payable were discounted using rates between 1.94% and 4.86%.

Fair value hierarchy:

The table below analyzes financial instruments carried at fair value categorized into one of the three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

2012	Fair value	Level 1	Level 2	Level 3
Financial liabilities:				
Financial liabilities recorded at FVTPL	\$ 178,003	\$ 171,524	\$ –	\$ 6,479
Derivatives	461	–	461	–
	<u>\$ 178,464</u>	<u>\$ 171,524</u>	<u>\$ 461</u>	<u>\$ 6,479</u>

2011	Fair value	Level 1	Level 2	Level 3
Financial liabilities:				
Financial liabilities recorded at FVTPL	\$ 98,137	\$ 94,406	\$ –	\$ 3,731
Derivatives	917	–	917	–
	<u>\$ 99,054</u>	<u>\$ 94,406</u>	<u>\$ 917</u>	<u>\$ 3,731</u>

(b) Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for unitholder returns. Chartwell is exposed to financial 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 Chartwell's risk management framework. Management is responsible for developing and monitoring Chartwell's risk management policies and reports regularly to the Board of Trustees on its activities.

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2011.

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 two significant categories of receivables: resident receivables and funding from various provincial governments.

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

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

Receivables from provincial governments represents capital and operating funding for licensed long term care properties primarily from 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 Chartwell's financial assets exposed to credit risk, net of applicable loss allowances, represents Chartwell'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.

The aging of resident receivables is as follows:

	2012
Current	\$ 1,523
31 - 60 days	1,107
61 - 90 days	613
Over 90 days	1,145
Allowance for doubtful accounts	(1,390)
Net resident receivables	\$ 2,998

Chartwell limits its exposure to credit risk related to derivatives by transactions 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.

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

The above liquidity needs are funded from cash flows from operating the property portfolio, with the exception of debt repayment obligations and property acquisition funding requirements. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include additional draws on the Credit Facility, raising funds by refinancing existing mortgages, arranging new mortgage financing, issuing units, convertible debentures or selling properties. At December 31, 2012, Chartwell had \$5,309 in cash and \$5,193 available and undrawn on the Credit Facility (note 10(b)).

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

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

Chartwell's major contractual obligations as at December 31, 2012 were as follows:

	Total	2013	2014	2015	2016	2017	Thereafter
Mortgages payable	\$ 1,975,625	\$ 284,848	\$ 258,391	\$ 303,405	\$ 325,371	\$ 279,186	\$ 524,424
Accounts payable and other liabilities	121,072	121,072	-	-	-	-	-
Distributions payable	7,800	7,800	-	-	-	-	-
Convertible debentures	135,000	-	-	-	-	-	135,000
Credit Facility	77,000	77,000	-	-	-	-	-
Purchase obligations ⁽¹⁾	20,296	20,296	-	-	-	-	-
Property operating leases	7,945	1,589	1,589	1,589	1,589	1,589	-
Other operating leases	11,222	1,125	1,321	1,306	1,164	1,129	5,177
Land leases	15,665	395	395	395	395	395	13,690
Total contractual obligations	\$ 3,371,625	\$ 514,125	\$261,696	\$ 306,695	\$ 328,519	\$ 282,299	\$ 678,291

⁽¹⁾Relates to construction contracts and deferred purchase consideration.

(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.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating-rate debt on an ongoing basis and its fixed-rate debt upon renewal. At December 31, 2012, \$244,640 (2011 - \$148,698) of Chartwell's mortgages and loans payable, bear interest at floating rates. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible on renewal. It may also enter into derivative financial instruments from time to time to mitigate interest rate risk. Generally, Chartwell fixes

the term of long-term debt within a range of 5 to 30 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate, long-term debt over time.

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 \$10,248 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 mortgages mature 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, based on an estimate of the cost to close the contract, as at December 31, 2012, is a loss position of \$461 (2011 - \$917), which is included in accounts payable and other liabilities on the consolidated balance sheets (note 12).

At December 31, 2012, Chartwell's interest-bearing financial instruments were:

	Carrying amount	
	2012	2011
Fixed-rate instruments:		
Financial assets (mezzanine loans)	\$ —	\$ 9,653
Financial liabilities	1,958,860	1,859,835
Variable-rate instruments:		
Financial liabilities	\$ 244,640	\$ 148,698

A change in interest rates at December 31, 2012 would not affect net income with respect to the fixed-rate instruments. Therefore, no sensitivity analysis is provided for the fixed-rate instruments.

An increase/decrease of 100 basis points in interest rates at December 31, 2012 for the variable-rate financial instruments would have increased/decreased the loss for the year by \$2,446 (on a pre-tax basis).

(b) Foreign currency rate risk:

At December 31, 2012, through its self-sustaining United States Operations, 28% (2011 - 34%) of Chartwell's assets and 32% (2011 - 40%) of Chartwell's mortgages payable were held in the United States and 27% (2011 - 26%) 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.

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, 2012.

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, 2012:

	U.S. dollar
Cash	\$ 3,768
Loans receivable from self-sustaining United States Operations	65,000
Net investment in self-sustaining United States Operations	14,485
Net exposure	\$ 83,253

A one cent change in the foreign exchange translation rate of U.S. dollars to Canadian dollars would have decreased/increased the loss for the year and decreased/increased other comprehensive loss (on a pre-tax basis) for the year as follows:

	U.S. dollar
Change in loss	\$ 1,195
Change in other comprehensive loss	145

(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, 2012, Chartwell received \$183,618 (2011 - \$177,188) in funding in respect of these licenses, which has been recorded as resident revenue and other income. Chartwell is exposed to risk related to this funding to the extent there are changes in legislation.

20. Capital structure financial policies:

Chartwell's primary objectives in managing capital are:

- (a) to provide stable and growing distributions to unitholders;
- (b) to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements by ensuring that Chartwell complies with externally imposed capital requirements;
- (c) to ensure that Chartwell has sufficient capital to execute on its strategic objectives, including targeted capital maintenance expenditures;
- (d) to meet its development and internal growth requirements; and
- (e) to ensure that Chartwell has access to sufficient capital for strategic acquisitions.

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

Management defines capital as Chartwell's total unitholders' equity and long-term debt. Chartwell'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, Chartwell may elect to issue units in lieu of cash to satisfy its convertible debenture obligations. Chartwell 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 Chartwell's capital management and does so through quarterly Trustees' meetings, review of financial information and regular communication with officers and senior management of Chartwell. The Board of Trustees also determines the level of any distributions that should be made.

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

Chartwell monitors capital based on the debt to adjusted gross book value ("GBV") ratio. It also monitors its interest coverage ratio. Chartwell's Declaration of Trust limits the amount of indebtedness that Chartwell can incur to 60% of GBV excluding convertible debentures, or 65% of GBV including convertible debentures.

Chartwell'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 Chartwell's capital management strategy during the year.

The following are the debt leverage ratios at December 31, 2012 and 2011:

	2012	2011	Increase (decrease)
Debt to GBV, excluding convertible debentures	54.3%	57.0%	(2.7)%
Debt to GBV, including convertible debentures	57.9%	59.3%	(1.5)%
Interest coverage ratio	2.00x	1.91x	0.09x

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

GBV means, at any time, the consolidated book value of the assets of Chartwell, as shown on Chartwell's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of 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, plus the difference between the GBV of assets under Canadian Generally Accepted Accounting Principles and IFRS at January 1, 2010, Chartwell's effective transition date, and the related costs in respect of completed property acquisitions that were expensed in the period incurred.

21. Personnel expenses:

The analysis of employee benefits expense for the year ended December 31, 2012, included in the consolidated statements of comprehensive loss under direct operating expenses and general, administrative and trust expenses, is as follows:

	2012	2011
Salaries and wages	\$ 408,262	\$ 355,531
Post-employment benefits (defined contribution plans)	4,996	4,029
Unit-based compensation	2,574	1,993
	<u>\$ 415,832</u>	<u>\$ 361,553</u>

22. Other expense (income):

	2012	2011
Gain recorded on remeasurement of previously held equity interest on acquisition	\$ —	\$ (3,595)
Reversal of previously recorded provisions for impairment of mezzanine loans and accounts receivables (note 6)	(9,399)	—
Gain on disposal of assets	(325)	(7,556)
Interest income on loans and receivables	(4,180)	(3,817)
Other income	(13,904)	(14,968)
Impairment of PP&E (note 4)	21,203	13,080
Transaction costs arising on business acquisitions and dispositions	12,995	1,280
Other expense	34,198	14,360
Other expense (income)	<u>\$ 20,294</u>	<u>\$ (608)</u>

In 2012, Chartwell recorded impairment of \$21,203 for three properties located in Quebec, and projects under development, where carrying values exceeded estimated fair value (note 4).

Included in the gain on disposal of assets for the year ended December 31, 2011 are:

- (a) \$1,848 on divestiture of Chartwell's interests in HBC and HBCII (note 5); and
- (b) \$5,926 on disposal of Canadian retirement community (note 4).

On November 1, 2011, Chartwell acquired the remaining 50% interest in a 15-property portfolio in the United States from ING at a purchase price that was lower than the carrying value of the existing 50% interest. As a result, during the year ended December 31, 2011, Chartwell recorded an impairment provision of \$8,500. Also in the year ended December 31, 2011, Chartwell recorded an impairment of \$4,580 for two properties whose estimated recoverable amount exceeded their carrying value and for some development costs for projects that are not proceeding at this time.

23. Finance costs:

	2012	2011
Contractual mortgage interest expense (note 10)	\$ 108,801	\$ 94,765
Interest expense on convertible debentures	7,193	4,425
Credit Facility and other interest expense	2,863	1,499
	118,857	100,689
Interest capitalized to properties under development	(1,843)	(1,303)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	1,639	3,037
Distributions on Class B Units recorded as interest expense	909	908
Distributions on subscription receipts	2,242	—
Convertible debenture issuance costs	5,363	—
Total finance costs	\$ 127,167	\$ 103,331

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

	2012	2011
Changes in fair value of convertible debentures	\$ 10,725	\$ (450)
Changes in fair value of interest rate swap	(456)	(171)
Unrealized foreign exchange loss (gain)	1,710	(1,322)
Changes in fair value of LTIP option component	2,701	(1,981)
Changes in fair value of Class B Units	4,034	537
Changes in fair value of Deferred Trust Units	1,018	455
Change in fair value of subscription receipts (note 15)	29,647	—
Changes in fair values of financial instruments and unrealized foreign exchange losses (gains)	\$ 49,379	\$ (2,932)

25. Income taxes:

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

	2012	2011
Deferred tax assets:		
Mortgages and other financing	\$ 7,825	\$ 3,774
Issue costs	7,585	3,158
Losses carried forward	–	7,288
PP&E	18,360	–
Other	4,367	3,957
	<u>38,137</u>	<u>18,177</u>
Deferred tax liabilities:		
PP&E	–	(7,506)
Capital funding receivable	(23,531)	(23,559)
Intangible assets	(13,129)	(11,688)
Other	(1,477)	(1,749)
	<u>(38,137)</u>	<u>(44,502)</u>
	<u>\$ –</u>	<u>\$ (26,325)</u>

Deferred tax assets have not been recognized for the following temporary differences in Canada:

	2012	2011
Deductible temporary differences	\$ 11,473	\$ –
Losses carried forward	26,314	–
	<u>\$ 37,787</u>	<u>\$ –</u>

The Chartwell has non-capital loss carry forwards in Canada of \$16,972 which will expire between 2015 and 2032. The Chartwell also has capital loss carry forwards in Canada of \$9,342 which can be carried forward indefinitely. The deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

Chartwell has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. Deferred tax assets have not been recognized for these subsidiaries in respect of the following items:

	2012	2011
Deductible temporary differences	\$ 140,257	\$ 92,903
Net operating losses	77,097	73,700
Capital losses	23,125	26,597
Total	<u>\$ 240,479</u>	<u>\$ 193,200</u>

Net operating losses will expire between 2025 and 2032 and capital losses expire in 2016. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets

have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which these U.S. corporate subsidiaries can utilize these tax benefits.

The provision for income taxes in the consolidated statements of comprehensive loss represents an effective tax rate different than the Canadian SIFT tax rate of 49.53% (2011 - 46.41%) The differences for the years ended December 31 are as follows:

	2012	2011
Loss before income taxes	\$ (161,023)	\$ (77,128)
Income tax recovery at Canadian SIFT tax rates	\$ (79,755)	\$ (35,795)
Effect of permanent differences	785	301
Tax benefits not recognized	31,408	18,961
International income tax rate differences	5,897	4,285
Prior period adjustments	(489)	(1,565)
Fair value adjustments	19,996	-
Other	477	16
	\$ (21,681)	\$ (13,797)

26. *Commitments and contingencies:*

(a) Lease obligations:

(i) Property operating leases:

Chartwell has leasehold interests in two properties acquired with the Merrill Gardens portfolio. The terms 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 are \$1,589 (U.S. \$1,597) per annum and a total of \$7,946 (U.S. \$7,986) for the remaining term of the leases. The leases provide 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.

(ii) Land 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 Care portfolio acquisition, Chartwell 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.

(iii) Other operating leases:

In addition, Chartwell has operating leases on office space in Canada that expire on various dates up to July 31, 2022. Annual payments in aggregate on these leases vary from \$1,125 to \$1,321 over the remaining term of the leases.

For the above leases, legal title does not pass to Chartwell, the rent paid is increased to market rent at regular intervals, and for the property leases, the option to purchase the properties is not at a bargain price. Chartwell has determined that substantially all of the risks and rewards incidental to ownership are still with the lessor and, as such, these leases are operating leases.

(b) Purchase obligations:

Chartwell has entered into various construction contracts related to various development and asset improvement projects. As at December 31, 2012, the remaining commitments under these contracts amounted to approximately \$19,776. Deferred purchase consideration in the amount of \$520 was outstanding as of December 31, 2012.

(c) Letters of credit:

As at December 31, 2012, Chartwell was contingently liable for letters of credit in the amount of \$2,807 (2011 - \$2,263).

(d) Other contracts:

On September 1, 2011, Chartwell transferred the management of 45 communities in the United States to Brookdale Senior Living ("Brookdale") as a result of Brookdale's acquisition of HBR. Under the new agreements, the average terms of the management contracts have been reduced to approximately 10 years, with a new maturity date of December 31, 2021. The base management fee for the properties under contract is 5% of gross revenue. The new contracts include an incentive fee mechanism whereby Brookdale can earn an additional fee of up to 2% of gross revenue upon the achievement of specified annual operating targets. Management fees may also be reduced by up to 1% if such annual operating targets are not achieved.

(e) Litigation and claims:

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

27. Guarantees:

Chartwell and its joint venture partners have jointly and severally guaranteed CMHC-insured loans on three properties to a maximum amount of \$52,315. As at December 31, 2012 outstanding balances on these loans were \$48,825.

28. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Officers and Trustees compensation	\$ 4,693	\$ 4,713
Post-employment benefits	64	60
Termination benefits	225	1,238
Other long-term benefits	936	438
Unit-based payments	87	116

Chartwell management has a Senior Executive Committee ("SEC") with the responsibility to provide strategic direction and oversight to Chartwell. The above table includes the total compensation of members of the SEC, and Directors of Chartwell.

29. Subsequent events:

In January 2013, Chartwell completed the arrangement for mortgage financing on six properties, including five fixed mortgages and one variable, for aggregate proceeds of \$37,800. A portion of these proceeds were used to repay amounts outstanding on the Credit Facility.

On February 13, 2013, Chartwell and its partner completed the previously-announced sale of the five-property portfolio in the United States ("Bristol portfolio"). The sale price was U.S. \$290,000 and was satisfied by the purchasers assuming mortgages in the amount of U.S. \$197,700, with the balance of the purchase price, subject to closing adjustments and escrow requirements paid in cash. Chartwell owned a 50% interest in this portfolio. At December 31, 2012, Chartwell classified the Bristol portfolio as assets held for sale (note 9).

Corporate and Unitholder Information

Trustees and/ or Directors

Michael Harris, Chair ⁽²⁾

André Kuzmicki ⁽³⁾

Huw Thomas ⁽¹⁾

Lise Bastarache ^{(1) (3)}

Sidney Robinson ^{(1) (2)}

Sharon Sallows ⁽³⁾

Thomas Schwartz ^{(2) (3)}

Brent Binions

(1) Audit Committee

(2) Compensation, Governance
and Nominating Committee

(3) Investment Committee

Officers and Senior Management

Brent Binions
President and Chief Executive Officer

Karen Sullivan
Chief Operating Officer

Vlad Volodarski
Chief Financial Officer

Sheri Annable
Chief Administrative Officer

Jonathan Boulakia
Executive Vice President,
General Counsel and Secretary

Phil McKenzie
Executive Vice President,
Sales and Marketing

Unitholder Information

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Facsimile: (905) 501-0813
chartwell.com

Auditors
KPMG LLP,
Toronto, Ontario

Legal Counsel
Osler, Hoskin & Harcourt LLP,
Toronto, Ontario

Stock Exchange Listing
Toronto Stock Exchange (CSH.UN)

Transfer Agent and Registrar
Computershare Investor Services
Toronto, Ontario
Telephone: (800) 564-6253
Facsimile: (866) 249-7775
Email: service@computershare.com

Unitholder and Investor Contact
Vlad Volodarski, Chief Financial Officer
Email: investorrelations@chartwellreit.ca

Annual Meeting of Unitholders
4:30pm ET - Thursday, May 16, 2013
St. Andrew's Club and Conference Centre
150 King Street West, Toronto, Ontario

Distribution Reinvestment Plan

Chartwell's Distribution Reinvestment Plan ("DRIP") allows unitholders to use their monthly cash distributions to steadily increase ownership in Chartwell without incurring any commission or brokerage fees.

To encourage participation, eligible investors registered in the DRIP will receive additional bonus units in an amount equal to 3% of their cash distributions. The right to receive the bonus units is being provided for no additional consideration.

Unitholders who are Canadian residents are eligible to participate. To register for the DRIP, please contact your investment advisor.

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