



## MANAGEMENT'S DISCUSSION & ANALYSIS

THIRD QUARTER REPORT  
September 30, 2020

**Q3**





# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Three and Nine Months Ended September 30, 2020

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## ***About this Management's Discussion and Analysis***

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 three and nine months ended September 30, 2020. This MD&A should be read in conjunction with Chartwell's unaudited, condensed consolidated interim financial statements for the three and nine months ended September 30, 2020, and the notes thereto (the "Financial Statements"), the audited consolidated financial statements for the years ended December 31, 2019 and 2018 and the notes thereto (the "2019 Financial Statements") and the annual MD&A for the year ended December 31, 2019 (the "2019 MD&A"). This material is available on Chartwell's website at [www.chartwell.com](http://www.chartwell.com). Additional information about Chartwell, including its Annual Information Form ("AIF") for the year ended December 31, 2019, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of November 5, 2020.

All references to "Chartwell," "we," "our," "us" or the "Trust" refer to Chartwell Retirement Residences and its subsidiaries, unless the context indicates otherwise. 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 we refer to joint ventures as defined by International Financial Reporting Standards ("IFRS") in 'IFRS 11 – Joint Arrangements' and that are accounted for using the equity method as "Equity-Accounted JVs".

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; "2020" refers to the calendar year 2020; and "2019" refers to the calendar year 2019, and "YTD" means year to date.

Unless otherwise indicated, all comparisons of results for Q3 2020 and 2020 YTD are in comparison to results from Q3 2019 and 2019 YTD, respectively.

In this document we use a number of performance measures that are not defined in generally accepted accounting principles ("GAAP") such as Net Operating Income ("NOI"), "Adjusted NOI", Funds from Operations ("FFO"), Internal Funds from Operations ("IFFO"), "Net Debt", "Adjusted EBITDA", "Net Debt to Adjusted EBITDA Ratio", "Liquidity", "Imputed Cost of Debt", "Lease-up-Losses", "Adjusted Development Costs", "Unlevered Yield", "Stabilized NOI" "Adjusted Resident Revenue", "Adjusted Direct Property Operating Expense", "Total Equity" and any related per unit ("PU") amounts to measure, compare and explain the operating results and financial performance of the Trust (collectively, the "Non-GAAP Financial Measures"). These Non-GAAP Financial Measures do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similar measures used by other issuers. The Real Property Association of Canada ("REALPAC") issued white papers with recommendations for calculations of FFO, Adjusted Funds from Operations ("AFFO"), and Adjusted Cash Flow from Operations ("ACFO") (the "REALPAC Guidance"). Our FFO definition is substantially consistent with the definition adopted by REALPAC. Please refer to the "Additional Information on Non-GAAP Financial Measures" section of this MD&A for details. As part of our financial covenants reporting, we present AFFO in accordance with the definitions used in our credit agreements. This definition differs from the definition in the REALPAC Guidance.

In this document we use various financial metrics and ratios in our disclosure of financial covenants such as "Debt Service Coverage Ratio", "Interest Coverage Ratio", "Total Leverage Ratio", "Adjusted Consolidated Unitholders' Equity Ratio", "Secured Indebtedness Ratio", "Unencumbered Property Asset Ratio", "Consolidated EBITDA to Consolidated Interest Expense Ratio", "Indebtedness Percentage", "Consolidated EBITDA", "Consolidated Interest Expense", "Regularly-Scheduled Debt Principal Repayments", "Consolidated Indebtedness", "Adjusted Consolidated Gross Book Value of Assets, AFFO",

“Secured Indebtedness”, “Consolidated Unsecured Indebtedness”, “Unencumbered Property Asset Value”, “Aggregate Adjusted Assets”, “Unencumbered Aggregate Adjusted Assets”, “Adjustment for accumulated depreciation and amortization”, “Payment of cash distributions”, “Investment restrictions”, “Coverage ratio” and, “Amortization of finance costs and fair value adjustments on assumed mortgages”. These metrics are calculated in accordance with the definitions contained in our credit agreements and the trust indenture governing our outstanding debentures and may be described using terms which differ from standardized meanings prescribed by GAAP. These metrics may not be comparable to similar metrics used by other issuers. Please refer to the “Liquidity and Capital Resources – Financial Covenants” section of this MD&A for details.

All dollar references, unless otherwise stated, are in Canadian dollars.

## Forward-Looking Information and COVID-19 Risk

This document contains forward-looking information that reflects management's current expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry as of the date of this MD&A.

### Risks and Uncertainties

Our AIF dated February 27, 2020, and our 2019 MD&A contain detailed discussions of risk factors and uncertainties facing Chartwell.

### COVID-19 Risk Factor

On March 11, 2020, the World Health Organization declared COVID-19 ("COVID" or the "virus") a global pandemic (the "pandemic"). The duration and impact of the pandemic on Chartwell is still unknown at this time. During Q3 2020, the spread of COVID adversely affected our business and it is expected to continue to do so. The impact to Chartwell will depend on the scope, severity and duration of the pandemic. It is impossible to accurately predict the full effects or reliably estimate the length and severity of COVID-related impacts on the financial results and operations of Chartwell which will continue to have a material adverse effect on our business, results of operations, liquidity and financial condition.

Our revenue and operating results depend significantly on the occupancy levels at our retirement residences. Restrictions on in-person tours by or on behalf of prospective residents as a precautionary measure to avoid the spread of COVID, similar to those implemented during the initial stages of the pandemic, are reoccurring in some provinces and more specifically in local areas where community spread is higher, and such restrictions may result in further decreases in occupancy levels. The pandemic will also continue to result in: direct impacts at residences that experience an outbreak; delays in accepting new residents due to self-isolation requirements; negative perceptions of congregate living; government directives that limit activities and visitors; less respite or short-stay residents; and potentially shorter lengths of stay for our existing residents.

The pandemic has caused and may continue to cause a material increase in our operating costs and may cause an increase in general, administrative and trust ("G&A") expenses and development costs. Enhanced procedures, protocols and care put in place to assist in reducing the likelihood of exposure of our residents and staff to the virus or to address outbreaks at our retirement residences and long term care homes (including enhanced screening, personal protective equipment, increased disinfection, additional seatings in the dining room to respect physical distancing, and other health and safety precautions) have resulted and will continue to result in increased costs. In addition, the pandemic adversely impacted our operations by causing staffing and supply shortages in the early stages of the pandemic and may continue to do so. Although continued or enhanced government funding or assistance may mitigate some of these impacts, there is no certainty as to the extent to which that will be the case. In addition, our management and residence staff are spending considerable time addressing the pandemic, which diverts their attention from other business concerns.

Further, the pandemic has impacted the overall economy, and credit markets were and may continue to be adversely affected. This, in combination with both reduced revenues and increased operating and/or development costs, may make it more difficult for us to access the credit markets or, if we are able to do so, it may be at a higher cost or less advantageous terms than we previously had access to, potentially impacting, among other things, re-financing of outstanding debt when due and our development plans and timelines. In particular, the available borrowing capacity of the secured and unsecured credit facilities may be reduced due to the impact of the pandemic on the business. The available capacity of the secured credit facility is determined in accordance with a formula defined in the Credit Agreement that considers the lending value of the properties included in the secured asset pool. The factors impacting the lending value formula for the secured credit facility include property valuations, the mortgageability amount determined on the basis of NOI for the previous four quarters, the secured collateral, and the occupancy rate of the property exceeding 80% for the preceding quarter. The occupancy requirement has been temporarily suspended up to and including Q4 2020 with a right to request extension for two subsequent quarters.

subject to the approval of the lenders. The unsecured credit facility capacity may be reduced if the ratio of unencumbered property asset value, which is based on third party appraisals, to unsecured indebtedness falls below a threshold defined in the unsecured Credit Agreement.

The pandemic has resulted in and will continue to result in some or all of these negative outcomes and could continue to materially and adversely impact our business, results of operations, liquidity, and financial condition. The extent to which the pandemic will impact our business and results of operations is uncertain and will depend on future developments that cannot be predicted with confidence, including the duration and severity of the pandemic. The actions taken by private sector participants and governments in response to the pandemic, including the announced independent commission into the Ontario long term care system to contain and/or address COVID impacts, can be expected to have a significant effect on our business and results of operations that cannot be predicted with confidence.

There is an increased risk that Chartwell may be subject to litigation related to Chartwell's handling of the pandemic at its residences, which, even if not meritorious, and even if covered by Chartwell's insurance, could result in increased operating costs to Chartwell to defend. As of November 5, 2020, Chartwell has been named as a defendant in three separate proposed class actions related to the pandemic (Refer to the "Commitments and Contingencies – Litigation and Claims" section of this MD&A on page 45 for further details). Chartwell's insurers are handling the defense of these actions.

Participants in the seniors housing sector have recently experienced difficulty obtaining liability and other insurance at a reasonable cost, and, in some cases, industry participants have had difficulty renewing insurance policies at the same coverage as the expiring policies. There is a risk that Chartwell will incur additional costs renewing its insurance coverage and/or that such coverage may be reduced on renewal.

## Business Overview

Chartwell is an open-ended real estate trust governed by the laws of the Province of Ontario. We indirectly own and operate a portfolio of seniors housing communities across the complete continuum of care, all of which are located in Canada.

***Our Vision is...*** Making People's Lives BETTER

***Our Mission is...***

- to provide a happier, healthier and more fulfilled life experience for seniors;
- to provide peace of mind for our residents' loved ones;
- to attract and retain employees who care about making a difference in our residents' lives; and
- to provide an investment opportunity that benefits society with reasonable and growing returns to the 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

***Our Portfolio***

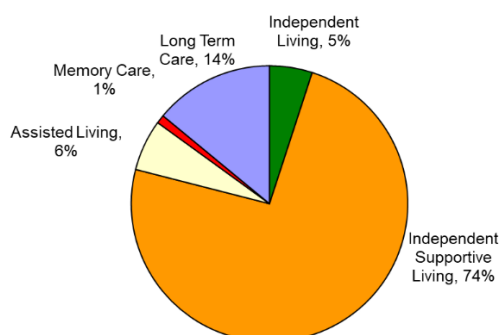
- Independent living ("IL") - Age-qualified suites/ townhouses/ bungalows/ apartments with availability of providing meals and dining, housekeeping and laundry services without personal care services/personal assistance available.
- Independent supportive living ("ISL") - Age-qualified suites/ townhouses/ bungalows/ apartments with dining, housekeeping and laundry services with personal assistance services available.
- Assisted living ("AL") - Age-qualified suites with a base level of personal assistance services included in the service fee, in a separate wing, floor or building. Additional care services may be added on top of base fee.
- Memory care ("MC") - Age-qualified suites with personal care services included in base fee for persons with Alzheimer's disease or other forms of dementia, in a separate/secure wing, floor or building.
- Long term care ("LTC") - Access to 24-hour nursing care or supervision in a secure setting, assistance with daily living activities and high levels of personal care. Admission and funding is overseen by local government agencies in each province.

## Composition of Our Portfolio

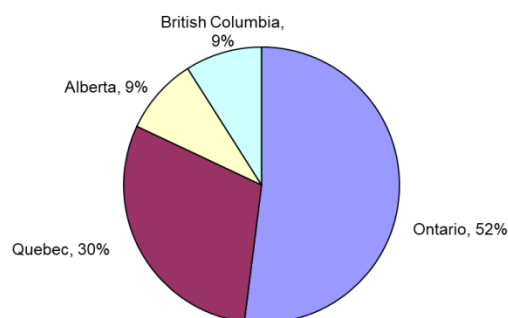
The following presents the composition of our owned and managed portfolio of communities in our two operating segments at September 30, 2020:

|                                            | Retirement Operations |               | Long Term Care Operations |              | Total       |               |
|--------------------------------------------|-----------------------|---------------|---------------------------|--------------|-------------|---------------|
|                                            | Communities           | Suites/Beds   | Communities               | Suites/Beds  | Communities | Suites/Beds   |
| <b>Owned Communities:</b> <sup>(1)</sup>   |                       |               |                           |              |             |               |
| 100% Owned – operating                     | 118                   | 14,859        | 20                        | 2,776        | 138         | 17,635        |
| Partially Owned – operating <sup>(2)</sup> | 47                    | 9,184         | -                         | -            | 47          | 9,184         |
| Total Owned                                | 165                   | 24,043        | 20                        | 2,776        | 185         | 26,819        |
| <b>Managed Communities</b>                 | 7                     | 1,873         | 4                         | 608          | 11          | 2,481         |
| <b>Total</b>                               | <b>172</b>            | <b>25,916</b> | <b>24</b>                 | <b>3,384</b> | <b>196</b>  | <b>29,300</b> |

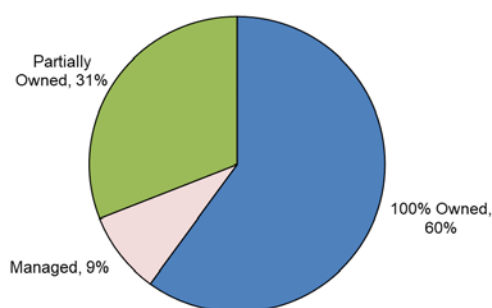
Level of Care <sup>(3)</sup>



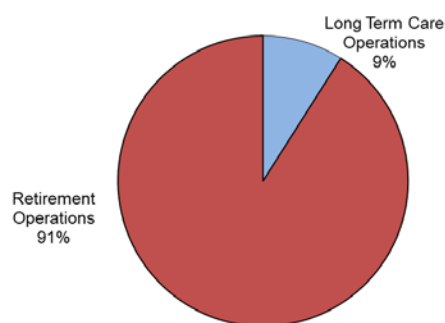
Geographic Location <sup>(3)</sup>



Ownership Interest



NOI <sup>(4)</sup> by Operating Segment



(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 42.5% ownership in one community (345 suites), a 45% ownership interest in one community (332 suites), a 50% ownership interest in 40 communities (7,577 suites), a 60% ownership interest in one community (165 suites) and an 85% ownership interest in four communities (765 suites).

(3) Represents composition of suites/beds at Chartwell's share of ownership interest at September 30, 2020.

(4) NOI % represents Chartwell's share of ownership interest for the rolling 12 months ended September 30, 2020.



## Business Strategy

### *Our Strategy Statement is...*

"In 2023, we will achieve in our retirement residences, **Employee Engagement** of 55% (highly engaged), **Resident Satisfaction** of 67% (very satisfied) and Same Property **Occupancy** of 95% to drive strong **IFFOPU** growth by providing exceptional resident experiences through personalized services in our upscale and mid-market residences in urban and suburban locations."

A detailed discussion of our business strategy can be found in our 2019 MD&A.

## 2020 Outlook

Due to the uncertainty of the effects of the pandemic, on April 16, 2020, we withdrew our 2020 Outlook contained in our 2019 MD&A. The pandemic has had a significant impact on our residents and their families, particularly those directly affected by the disease. Chartwell's top priority is the safety and well-being of our residents and staff and we are grateful to every one of over 16,000 employees for their tremendous efforts, commitment and dedication to our residents and their families.

We have always maintained strong infection control and management protocols and, from the beginning of the pandemic, have activated enhanced infection control measures. Our corporate care team is using their regional expertise to operate a 24/7 Hotline to support our retirement and long term care residences. Despite the significant disruption in supply, we have been successful in sourcing personal protective equipment and, working with various provincial governments and other industry participants, we are protecting our employees and residents with this equipment at all of our residences.

In order to enhance support to our residents during this challenging time and to alleviate the increased workload of our staff resulting primarily from heightened safety measures, we have launched and are maintaining a new recruitment campaign. In addition, our strong corporate support has enabled new operational standards to support physical distancing across our retirement and long term care residences while ensuring our residents receive the care and services they need. Our staff are using new, creative ways to keep our residents safe, healthy and engaged in this environment, including the use of telehealth and videoconferencing with families. Every day, our employees are inspiring each other, our residents and their families with their creativity and dedication.

As of the date of this MD&A, 13 of our retirement residences and seven of our long term care homes have been declared by public health to be in COVID-19 outbreak. Our response to the pandemic is guided by public health authorities and the Federal, Provincial and Municipal governments. We continue to meet or exceed the direction provided by these authorities to control the spread of COVID.

As noted, restrictions on residence visits during this pandemic have had, and are expected to continue to have a negative impact on our occupancy levels. Tours by or on behalf of prospective residents were not permitted in many of our retirement residences at the beginning of the pandemic. There had been a gradual reopening from the beginning of June which allowed the majority of our retirement residences to have onsite personalized tours unless in outbreak; however, restrictions were recently re-introduced in respect of personalized tours for residences in regions in Ontario experiencing higher community cases. Where we have not been able to conduct in-person prospective resident tours, or where preferred by the prospective resident, we have provided a live virtual tour experience.

We have updated our protocols for move-ins and tours by, or on behalf of, prospective residents to ensure that we prioritize the safety and well-being of our existing residents, while also addressing the needs of seniors in the community who require our services. In June 2020, we began accepting move-ins in all our retirement residences, other than those that had confirmed positive cases, and we reactivated our marketing programs.

In certain of our British Columbia and Alberta residences, and in Ontario, new residents are currently required to be tested for COVID-19 and to self-isolate for fourteen days which can be an inhibitor to permanent move-in decisions as well as reducing demand for short stay visits. The fourteen-day self-isolation is not a requirement in Quebec or in our independent living residences in British Columbia and Alberta. A newly developed resident transition program offers unique experiences to our new residents during their initial stay at Chartwell mitigating the inconveniences of such self-isolations. In addition, in Ontario, family members can now be designated as essential caregivers and can visit their loved ones both during and after the self-isolation period.

We believe that occupancy in our retirement residences will continue to be temporarily affected as a result of reduced move-in activity. Move-out activity is below previous-year levels at this time, primarily due to reduced departures to long term care. The following table provides an update in respect of our same property retirement occupancy:

|                                                      | One month ended<br>July 31, 2020 | One month ended<br>August 31, 2020 | One month ended<br>September 30, 2020 | One month ended<br>October 31, 2020 |
|------------------------------------------------------|----------------------------------|------------------------------------|---------------------------------------|-------------------------------------|
| Same property retirement occupancy                   | 82.9%                            | 82.4%                              | 82.2%                                 | 81.9%                               |
| <i>Change from the previous month <sup>(1)</sup></i> | <i>(0.6pp)</i>                   | <i>(0.5pp)</i>                     | <i>(0.2pp)</i>                        | <i>(0.3pp)</i>                      |

(1) 'pp' means percentage points.

The pace of decline in occupancy has slowed since the onset of the pandemic in mid-March, with move-in activity steadily increasing and in October representing approximately 75% of previous-year volumes and move-out activity continuing to be below previous-year levels.

Our tenant credit quality remains strong given the typical investment profile of Canadian seniors in our target customer demographic. Substantially all October and November rents and service charges have been collected, consistent with our past experience.

Beginning in June 2020, funding programs to provide support for the costs of, among other things, screening, personal protective equipment, and additional staffing were no longer sufficient to cover the associated expenses. We expect to continue to incur higher-than-normal operating costs as a result of investments in additional staffing, in particular related to screening, housekeeping and additional care, staff recognition, meals and accommodation to support our staff, personal protective equipment and supplies. Top-up pay, which has largely been fully funded to date, is expected to be temporary.

British Columbia has announced additional funding, effective mid-July, to support enhanced protocols for visitors in long term care homes and retirement residences with government-funded assisted living.

In addition, in Quebec, funding has been provided to assist in defraying incremental investments in screening and other measures.

On April 11, 2020, the Government of Canada enacted various programs in response to the pandemic, including the Canada Emergency Wage Subsidy ("CEWS"), for which further changes were announced on July 17, 2020, August 21, 2020 and October 14, 2020. We have maintained or increased our staffing levels providing quality jobs for over 16,000 individuals who provide necessary services to our residents despite reduced revenues. We are assessing the claim requirements and currently estimate \$3 to \$4 million of subsidy to support our Q3 2020 staffing levels, which has not yet been recorded as there was no reasonable assurance as of the reporting date that we would be eligible under all conditions of the subsidy due to the fluctuating requirements of the program among other items.

Ontario's long term care funding is delivered via four distinct envelopes allocated to nursing and personal care, programming, food and administration. The first three envelopes must be spent entirely on specific eligible costs related to resident care and services and are independently audited. Any surplus funding is returned to the government on filing of the annual audited long term care home financial returns. The Ontario government has announced that occupancy protection funding will be in place for our long term care residences until December 31, 2020. In addition, the Ontario government announced that the base

accommodation and preferred accommodation rates in Ontario long term care homes will increase 1.9% and that the government will fund these increases from July 1, 2020 to December 31, 2020. The Ontario government has also announced that Structural Compliance Funding will be in place from April 1, 2020 to March 31, 2021 and that this will be replaced with a minor Capital Funding Program that will begin April 1, 2021 and will be phased in over three years.

On September 10, 2020, the Ontario government issued its previously announced redesigned capital funding subsidy ("CFS") program policy for long term care. The policy includes a \$1.75 billion investment to redevelop 12,000 beds and add an additional 8,000 beds over the next five years. We have 577 Class B and C beds that are eligible for this redevelopment program. We continue to work closely with our industry partners and the government to finalize the details of the new CFS program, to ensure the related approval and licensing process to expedite projects are feasible within this new program, and importantly to ensure the sustainability of long term care homes including adjusting operating funding to sufficient levels to absorb additional costs, particularly enhanced staffing, to reduce the spread of COVID.

In October 2020, we announced the commencement of construction of the new 224-bed Chartwell Ballycliffe Long Term Care which will replace the existing 100-bed Class C LTC home in Ajax, Ontario.

On September 29, 2020, the Ontario government has announced additional funding of over \$500 million for long-term care as follows:

- \$405 million for infection prevention, staffing and personal protective equipment;
- \$61.4 million for minor capital repairs and renovations (also noted above);
- \$40 million to support homes affected by the changes in occupancy due to the pandemic; and
- \$30 million to hire more infection prevention and control staffing.

The details of this funding for Ontario long term care have not yet been announced. We expect that once the details are clarified, this new funding will defray a substantial portion of the expenditures for nursing and other care and investments in measures to prevent and contain the spread of COVID, including additional staffing, screening and disinfection, made to date.

In addition, on November 3, 2020, the Ontario government announced a commitment to increase direct care of residents of long term care to an average of four hours per day by the 2024 to 2025 government year.

On October 30, 2020, we refinanced a mortgage on a property recently acquired from Batimo Inc. ("Batimo") with a CMHC-insured mortgage of \$20.9 million, bearing interest at 1.75% with a 10-year term to maturity.

At November 5, 2020, we have \$14.2 million of mortgage maturities remaining in 2020, of which \$12.4 million are CMHC insured. We have \$244.3 million of mortgage maturities in 2021, of which \$37.5 million are CMHC insured. We have strong lending relationships and scheduled refinancings of our mortgage maturities in 2020 and 2021 are proceeding in the normal course.

DBRS confirmed our BBB(low) credit rating changing our previous stable trend to negative based on the significant impact of COVID and the resultant higher net debt to EBITDA metrics compared to prior periods, as described in their report. (Details are available on their website at [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com), or [link here](#))

At November 5, 2020, liquidity amounted to \$408.6 million, which included \$61.6 million of cash and cash equivalents and \$347 million of available borrowing capacity on our credit facilities. In addition, Chartwell's share of cash and cash equivalents held in its equity-accounted joint ventures was \$14.1 million. We expect to be able to meet all of our obligations as they become due utilizing primarily the following sources of liquidity: (i) cash flow generated from our operations, (ii) property-specific mortgages, and (iii) secured and unsecured credit facilities. The pandemic has introduced significant uncertainties as discussed in the "Forward-Looking Information and COVID-19 Risk" section on page 3 of this MD&A and we continue to monitor the situation closely.

## Significant Events

In addition to the items discussed in the 2020 Outlook section of this MD&A, the following events have had a significant effect on our financial results in Q3 2020 and may be expected to affect our results in the future:

### COVID-19

Refer to the “Forward-Looking Information and COVID-19 Risk” section on page 3 of this MD&A.

## Development

Our business strategy is to develop modern, innovative, market-specific and operationally efficient seniors communities that remain competitive over the long term, and in some cases selectively partnering with reputable developers in order to gain access to attractive sites in strong markets. We expect near-term delays to on-going projects in terms of expected completion dates, as well as delays to the commencement of construction for new development projects as we are undertaking technical and administrative activities to re-evaluate returns and models.

### ***Unlevered Yield, Development Lease-up-Losses and Imputed Cost of Debt***

In addition to monitoring development costs measured on a GAAP basis which includes land, hard and soft development costs, furniture, fixtures and equipment, we assess our return on investment in development activities using the non-GAAP financial measure ‘Unlevered Yield’. Unlevered Yield should not be construed as an alternative to other GAAP metrics and may not be comparable to measures used by other entities.

Unlevered Yield is defined as the ratio of:

- the estimated annual NOI of a development property in the first year it achieves an expected stabilized occupancy level (“Estimated Stabilized NOI”) which varies from project to project,
- divided by the estimated adjusted development costs (the “Adjusted Development Costs”) which is the sum of:
  - development costs on a GAAP basis, plus
  - operating results generated by the development property, including pre-opening costs (the “Lease-up-Losses”), plus
  - an imputed cost of debt calculated by applying our estimated weighted average cost of debt to our GAAP development costs plus Lease-up-Losses, compounded during the development of the property (the “Imputed Cost of Debt”).

We believe this is a useful measure as we believe it reflects our financial returns on the total economic cost of developing a new property.



## Completed Projects

The following table summarizes development projects that have been completed since January 1, 2019:

| Project                                         | Location        | Suites / Beds | Suite Type | Chartwell Ownership Interest | Operations Start Date | Gross Book Value <sup>(1)</sup> (\$millions) | Occupancy <sup>(2)</sup> (%) | Adjusted Development Costs <sup>(1)(2)(4)</sup> (\$millions) | NOI <sup>(1)(3)</sup> (\$millions) | Expected Stabilized Occupancy Date | Expected Stabilized Occupancy (%) | Estimated Stabilized NOI <sup>(1)(4)</sup> (\$millions) | Expected Unlevered Yield <sup>(4)</sup> |
|-------------------------------------------------|-----------------|---------------|------------|------------------------------|-----------------------|----------------------------------------------|------------------------------|--------------------------------------------------------------|------------------------------------|------------------------------------|-----------------------------------|---------------------------------------------------------|-----------------------------------------|
| <b>Projects completed in 2019:</b>              |                 |               |            |                              |                       |                                              |                              |                                                              |                                    |                                    |                                   |                                                         |                                         |
| Chartwell Carlton Retirement Residence          | Burnaby, BC     | 105           | ISL        | 100%                         | Q1 2019               | 42.1                                         | 62%                          | 44.7                                                         | 0.7                                | Q2 2021                            | 97%                               | 2.9                                                     | 6.5%                                    |
| Chartwell Wescott Retirement Residence          | Edmonton, AB    | 137           | ISL/MC     | 100%                         | Q1 2019               | 40.5                                         | 37%                          | 48.1                                                         | (0.3)                              | Q1 2022                            | 94%                               | 3.4                                                     | 7.0%                                    |
| The Sumach, by Chartwell                        | Toronto, ON     | 332           | ISL        | 45%                          | Q2 2019               | 46.9                                         | 46%                          | 48.9                                                         | 0.6                                | Q1 2023                            | 95%                               | 3.5                                                     | 7.2%                                    |
| Kingsbridge Retirement Community <sup>(5)</sup> | Kingston, ON    | 165           | ISL/AL     | 60%                          | Q3 2019               | 30.8                                         | 41%                          | 31.8                                                         | 0.1                                | Q1 2023                            | 95%                               | 2.7                                                     | 7.0%                                    |
| Chartwell Thunder Bay Townhomes                 | Thunder Bay, ON | 9             | IL         | 100%                         | Q4 2019               | 3.9                                          | 100%                         | 3.9                                                          | -                                  | Q3 2020                            | 100%                              | 0.3                                                     | 7.7%                                    |
|                                                 |                 | <b>748</b>    |            |                              |                       | <b>164.2</b>                                 |                              | <b>177.4</b>                                                 | <b>1.1</b>                         |                                    |                                   | <b>12.8</b>                                             | <b>7.2%</b>                             |

(1) Calculated at Chartwell's ownership interest in the project.

(2) As of the date of this MD&A.

(3) For the nine months ended September 30, 2020.

(4) Non-GAAP; the definition of this metric and the discussion of its significance can be found at the beginning of this section on page 10.

(5) Chartwell owns a 60% interest in this property and Signature Living and its affiliates own the remaining 40% interest and provide development and operations management services. Signature Living is entitled to a promote payment if the return on equity exceeds certain targets. The estimated stabilized NOI and expected unlevered yield calculations include estimates of such promote payment.

## Projects in Construction

The following table summarizes projects that are in construction:

| Project                                                 | Location        | Suites / Beds | Suite Type | Estimated Development Cost <sup>(1)</sup> (\$ millions) | Estimated Lease-up-Losses and Imputed Cost of Debt <sup>(1)(2)</sup> (\$millions) | Estimated Adjusted Development Costs <sup>(1)(3)</sup> (\$millions) | Adjusted Development Costs <sup>(1)(2)</sup> incurred as at September 30, 2020 (\$millions) | Estimated Adjusted Development Costs to Completion <sup>(4)</sup> (\$millions) | Expected Completion Date <sup>(5)</sup> | Expected Stabilized Occupancy Date <sup>(5)</sup> | Reservations <sup>(6)</sup> | Expected Stabilized Occupancy (%) | Estimated Stabilized NOI <sup>(1)(2)</sup> (\$millions) | Expected Unlevered Yield <sup>(2)</sup> |
|---------------------------------------------------------|-----------------|---------------|------------|---------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-----------------------------|-----------------------------------|---------------------------------------------------------|-----------------------------------------|
| Chartwell Guildwood Retirement Residence <sup>(7)</sup> | Scarborough, ON | 172           | IL/ISL/MC  | 38.6                                                    | 5.3                                                                               | 43.9                                                                | 23.4                                                                                        | 20.5                                                                           | Q3 2021                                 | Q1 2024                                           | 74%                         | 95%                               | 3.0                                                     | 6.8%                                    |
| Chartwell Meadowbrook Retirement Residence              | Lively, ON      | 56            | IL/ISL     | 25.7                                                    | 1.8                                                                               | 27.5                                                                | 19.8                                                                                        | 7.7                                                                            | Q4 2020                                 | Q1 2022                                           | 45%                         | 93%                               | 1.9                                                     | 6.9%                                    |
| Chartwell Montgomery Village                            | Orangeville, ON | 122           | ISL        | 44.0                                                    | 3.6                                                                               | 47.6                                                                | 19.3                                                                                        | 28.3                                                                           | Q3 2021                                 | Q1 2023                                           | -                           | 93%                               | 3.4                                                     | 7.1%                                    |
| Chartwell Ballycliffe Long Term Care <sup>(8)</sup>     | Ajax, ON        | 224           | LTC        | 53.4                                                    | 3.8                                                                               | 57.2                                                                | 4.7                                                                                         | 52.5                                                                           | Q2 2023                                 | Q2 2023                                           | -                           | 100%                              | 4.8                                                     | 8.4%                                    |
|                                                         |                 | <b>574</b>    |            | <b>161.7</b>                                            | <b>14.5</b>                                                                       | <b>176.2</b>                                                        | <b>67.2</b>                                                                                 | <b>109.0</b>                                                                   |                                         |                                                   |                             |                                   | <b>13.1</b>                                             | <b>7.4%</b>                             |

(1) Calculated at Chartwell's ownership interest in the project.

(2) Non-GAAP; the definition of this metric and the discussion of its significance can be found at the beginning of this section on page 10 of this MD&A.

(3) Non-GAAP; represents the total of estimated Development Costs and estimated Lease-up-Losses and Imputed Cost of Debt.

(4) Calculated as the Estimated Adjusted Development Costs less the Adjusted Development Costs incurred as at September 30, 2020.

(5) At this time, completion and stabilization dates are difficult to predict given the currently declared State of Emergency in Ontario.

(6) As of the date of this MD&A.

(7) Redevelopment of the 83-suite residence to a 172-suite residence. Chartwell owns a 50% interest in this project.

(8) Redevelopment of the existing 100-bed Class C LTC to a 224-bed LTC residence. The existing LTC operations are expected to continue during the redevelopment. The Ontario Ministry of Long-Term Care ("MLTC") will provide both capital funding to the project for 25 years post completion and a 17% grant toward land, hard and certain soft costs estimated at \$8.0 million, payable at substantial completion. Estimated stabilized NOI for this project includes the expected capital funding subsidy receipt of \$1.9 million.

## Projects in Pre-Construction

The following projects are in the pre-construction phase of development and while we continue to move these projects along pre-construction milestones and re-assess feasibility and returns, we are deferring the start of these projects for the time being:

- Chartwell Ridgepointe Retirement Residence, Kamloops, British Columbia (90 ISL suites)
- Chartwell Royalcliffe Retirement Community, London, Ontario (163 IL/MC suites)
- Pickering, Ontario (a 90% interest in a proposed development of a 415-suite retirement residence (the "Pickering Project"))
- Calgary, Alberta (proposed development of 384-suite retirement residence)
- Edmonton, Alberta (proposed development of a 202-suite retirement residence)

## Projects by Batimo

In addition to our own development activities, we have built an important pipeline of future acquisition opportunities by participating in certain development projects conducted by Batimo in the province of Quebec. Batimo carries out development activities and we provide leasing, marketing and management services to these projects and in some cases, provide mezzanine financing. Pursuant to our agreements with Batimo, we have certain call rights to acquire, and Batimo has certain put rights which may require us to acquire, an 85% ownership interest in these properties upon achievement of expected stabilized occupancy levels, subject to certain conditions, at purchase prices determined based on the appraisal mechanism described in such agreements.

The following table summarizes the status of projects by Batimo as of the date of this MD&A:

| Project                   | Location            | Suites / Beds | Suite Type    | Current Project Status <sup>(1)</sup> | Actual / Expected Completion Date | Actual / Expected Stabilized Occupancy Date |
|---------------------------|---------------------|---------------|---------------|---------------------------------------|-----------------------------------|---------------------------------------------|
| Chartwell Le Prescott     | Vaudreuil, QC       | 324           | ISL           | O                                     | June 2017                         | Q3 2022                                     |
| Chartwell Le Montcalm     | Candiac, QC         | 283           | ISL           | O                                     | September 2017                    | Q4 2021                                     |
| Chartwell Le Teasdale II  | Terrebonne, QC      | 221           | ISL           | O                                     | October 2018                      | Q3 2020                                     |
| Chartwell Greenfield Park | Greenfield Park, QC | 368           | ISL / AL      | O                                     | June 2019                         | Q3 2022                                     |
| Chartwell L'Envol         | Cap Rouge, QC       | 360           | ISL / AL      | O                                     | September 2019                    | Q4 2022                                     |
| Chartwell Trait-Carré     | Quebec City, QC     | 361           | ISL / AL      | C                                     | Q1 2021                           | Q3 2022                                     |
| Chartwell Atwater         | Montreal, QC        | 316           | ISL / AL / MC | C                                     | Q1 2022                           | Q3 2024                                     |
|                           |                     | <b>2,233</b>  |               |                                       |                                   |                                             |

(1) Current project status is defined where 'O' means 'Operating' and 'C' means 'Construction'.

Chartwell Le Teasdale II has achieved stabilized occupancy as defined in our agreements with Batimo. We expect to complete the acquisition of an 85% ownership interest in this project in Q4 2020. We anticipate settling the purchase price by assuming the related construction financing of \$37.3 million, and repayment of the outstanding mezzanine loan of \$3.9 million, with the balance to be paid in cash.

## Potential Developments on Owned and Leased Lands

The following table summarizes additional development opportunities on our owned and leased lands. While a number of these development projects are in advanced stages of feasibility assessments, others have a longer term development time horizon and, in some cases, may be subject to extensive municipal approval requirements.

| Residence                                                                    | Location            | Ownership % | Vacant Land Size (acres) | Estimated Potential Number of Suites <sup>(1)</sup> | Book Value of Land (\$millions) |
|------------------------------------------------------------------------------|---------------------|-------------|--------------------------|-----------------------------------------------------|---------------------------------|
| Chartwell Cité-Jardin résidence pour retraités                               | Gatineau, QC        | 100         | 3.4                      | 600                                                 | 8.6                             |
| Chartwell Crescent Gardens Retirement Community                              | Surrey, BC          | 100         | 2.6                      | 184                                                 | 4.9                             |
| Chartwell Hartford Retirement Residence                                      | Morrisburg, ON      | 100         | 1.8                      | 94                                                  | -                               |
| Chartwell Muskoka Traditions Retirement Residence                            | Huntsville, ON      | 100         | 0.4                      | 36                                                  | 0.9                             |
| Chartwell Ste-Marthe résidence pour retraités                                | Saint-Hyacinthe, QC | 100         | 0.8                      | 70                                                  | 0.7                             |
| Chartwell Wedgewood Retirement Residence                                     | Brockville, ON      | 100         | 0.5                      | 54                                                  | 0.6                             |
| Chartwell Woodhaven Long Term Care Residence <sup>(2)</sup>                  | Markham, ON         | 100         | 1.4                      | 108                                                 | 2.4                             |
| Chartwell Stillwater Creek Retirement Residence                              | Nepean, ON          | 100         | 0.5                      | 32                                                  | 0.6                             |
| Chartwell Belcourt résidence pour retraités                                  | Ottawa, ON          | 50          | 0.2                      | 31                                                  | 0.3                             |
| Chartwell Domaine des Trembles résidence pour retraités                      | Gatineau, QC        | 50          | 1.5                      | 182                                                 | 1.2                             |
| Chartwell Héritage résidence pour retraités                                  | Ottawa, ON          | 50          | 0.6                      | 160                                                 | 0.5                             |
| Chartwell Kingsville Retirement Residence                                    | Kingsville, ON      | 50          | 1.6                      | 55                                                  | 0.3                             |
| Chartwell Manoir Pointe-aux-Trembles résidence pour retraités <sup>(3)</sup> | Montreal, QC        | 50          | 4.7                      | 72                                                  | -                               |
| Chartwell Manoir Saint-Jérôme résidence pour retraités                       | Saint-Jérôme, QC    | 50          | 6.0                      | 668                                                 | 0.4                             |
| Chartwell Notre-Dame Victoriaville résidence pour retraités                  | Victoriaville, QC   | 50          | 1.1                      | 66                                                  | 0.1                             |
| Chartwell Royal Marquis Retirement Residence                                 | Windsor, ON         | 50          | 0.6                      | 45                                                  | 0.3                             |
| Total <sup>(4)</sup>                                                         |                     |             | 27.7                     | 2,457                                               | 21.8                            |

(1) Numbers of potential suites to be developed are estimates and subject to change based on market conditions and municipal approval processes.

(2) Leased lands. The value recognized on adoption of IFRS 16.

(3) Potential redevelopment of the existing 247-suite residence to a 319-suite residence; acreage is for the entire site.

(4) Excludes \$0.3 million of land acquired to facilitate redevelopment of one LTC property in Ontario.

## Acquisitions

On March 2, 2020, we acquired a 42.5% interest in Chartwell Le St-Gabriel in Longueuil, Quebec from Batimo. Welltower Inc. ("Welltower") also acquired a 42.5% interest and Batimo retained the remaining 15% interest in the property. The contractual purchase price at our share was \$37.9 million and was settled through the assumption of a variable-rate mortgage of \$23.9 million, settlement of the outstanding mezzanine loan of \$3.6 million, with the balance, net of the bank account acquired and working capital adjustments, paid in cash.

On May 1, 2020, we acquired an 85% interest in Chartwell L'Unique III in St. Eustache, Quebec from Batimo. Batimo retained the remaining 15% interest in the project. The contractual purchase price of \$32.6 million was settled by the assumption of a mortgage of \$16.9 million, the settlement of Chartwell's mezzanine loan of \$3.2 million, and the remaining balance, net of working capital adjustments, was paid in cash.

## Dispositions

On April 1, 2020, we completed the sale of four LTC residences in Ontario (299 beds) (the "Four LTC Residences") for an aggregate sale price of \$13.6 million. Chartwell has retained the obligation to remediate the lands at one of the Four LTC Residences. While the land is being remediated, Chartwell has entered into a finance lease arrangement and will receive cash in the amount of \$0.7 million in aggregate.

On April 8, 2020, we completed the sale of one non-core retirement residence (195 suites) located in Quebec for \$6.7 million. The mortgage related to this property of \$6.4 million was discharged on closing.

On August 31, 2020, we entered into a definitive agreement relating to the sale of three non-core retirement residences located in Ontario for an aggregate sale price of \$33.8 million. The sale is expected to be completed before December 31, 2020. These properties have been classified as assets held for sale as at September 30, 2020.

On November 2, 2020, we completed the sale of three non-core retirement residences in Alberta for an aggregate sale price of \$30.8 million. These properties have been classified as assets held for sale as at September 30, 2020. The mortgage related to one of these properties of \$5.2 million was discharged on closing.

## Joint Arrangements

'IFRS 11 – Joint Arrangements' classifies joint arrangements either as a joint operation or as a joint venture. Joint operations are joint arrangements in which the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operations are accounted for using proportionate consolidation. Joint ventures are joint arrangements in which the parties have rights to the net assets relating to the arrangement. Generally, where the party holds its interest in the joint arrangement through a separate legal entity, the joint arrangement will be classified as a joint venture. Joint ventures are accounted for using the equity method of consolidation. Chartwell does not independently control its joint arrangements which are accounted for using the equity method, and Chartwell's proportionate share of the financial position and results of operations of its investment in such joint arrangements, where presented and discussed in this MD&A using the proportionate consolidation method, does not necessarily represent Chartwell's legal claim to such items.

The following table summarizes the classification of properties which are owned through our joint arrangements or which are partially owned:

| Joint Arrangements                                  | # of Properties | Suites/Beds  | Chartwell Ownership | Joint Arrangement Type | Consolidation Method |
|-----------------------------------------------------|-----------------|--------------|---------------------|------------------------|----------------------|
| <b>Held directly:</b>                               |                 |              |                     |                        |                      |
| Chartwell-Welltower Landlord ("CWL") <sup>(1)</sup> | 37              | 7,245        | 50%                 | Joint operation        | Proportionate        |
| Chartwell Le St-Gabriel Landlord ("CSGL")           | 1               | 345          | 42.5%               | Joint operation        | Proportionate        |
| The Sumach by Chartwell                             | 1               | 332          | 45%                 | Joint operation        | Proportionate        |
| Batimo                                              | 4               | 765          | 85%                 | Joint operation        | Proportionate        |
| Chartwell Riverside Retirement Residence            | 1               | 138          | 50%                 | Joint operation        | Proportionate        |
| Chartwell Churchill House Retirement Residence      | 1               | 98           | 50%                 | Joint operation        | Proportionate        |
| Pickering Project <sup>(2)</sup>                    | 1               | 415          | 90%                 | Joint operation        | Proportionate        |
| <b>Held through separate legal entities:</b>        |                 |              |                     |                        |                      |
| Chartwell-Welltower Operator                        | Same as CWL     | Same as CWL  | Same as CWL         | Joint venture          | Equity               |
| Chartwell Le St-Gabriel Operator                    | Same as CSGL    | Same as CSGL | Same as CSGL        | Joint venture          | Equity               |
| Chartwell Oakville Retirement Residence             | 1               | 147          | 50%                 | Joint venture          | Equity               |
| Chartwell Constantia Retirement Residence           | 1               | 121          | 50%                 | Joint venture          | Equity               |
| Kingsbridge Retirement Community                    | 1               | 165          | 60%                 | Joint venture          | Equity               |

(1) Includes one property under construction; refer to the "Projects in Construction" section on page 11 of this MD&A.

(2) In pre-construction; refer to the "Projects in Pre-Construction" section on page 12 of this MD&A.

On May 1, 2012, Chartwell and Welltower acquired undivided interests in a portfolio of 39 properties (of which two were subsequently sold) where each of Chartwell's and Welltower's interests in the real estate are held directly and where each of our interests in the operations are held through separate legal entities. Chartwell is the property manager for this portfolio. As the real estate is held directly by each of Chartwell and Welltower, it is classified as a joint operation and accounted for on a proportionate consolidation basis. The operations of the related properties, for which Chartwell is the manager, are held through a separate legal entity and as a result are classified as a joint venture and are accounted for using the equity method of consolidation.

On March 2, 2020, Chartwell and Welltower each acquired a 42.5% interest in Chartwell Le St-Gabriel from Batimo, with Batimo retaining the remaining 15% interest. As the real estate is held directly by each of Chartwell, Welltower and Batimo, it is classified as a joint operation and accounted for on a proportionate consolidation basis. The operation of the property, for which Chartwell is the manager, is held through a separate legal entity and as a result is classified as a joint venture and is accounted for using the equity method of consolidation.



# Consolidated Results of Operations

## Highlights

The following table summarizes selected financial and operating performance measures:

| (\$000s)                          | Q3 2020 | Q3 2019 | Change  | 2020 YTD | 2019 YTD | Change  |
|-----------------------------------|---------|---------|---------|----------|----------|---------|
| Resident revenue                  | 219,650 | 215,802 | 3,848   | 654,932  | 639,534  | 15,398  |
| Direct property operating expense | 160,482 | 146,460 | 14,022  | 466,118  | 437,179  | 28,939  |
| Net income/(loss)                 | (6,766) | (816)   | (5,950) | 2,697    | 12,552   | (9,855) |

Resident revenue increased \$3.8 million or 1.8% in Q3 2020 due to pandemic-related government funding provided to partially defray additional expenses incurred related to the pandemic and revenue growth from acquisitions and developments, partially offset by lower occupancy and the disposition of properties.

Direct property operating expenses increased \$14.0 million or 9.6% in Q3 2020, due to pandemic-related expenses, acquisitions and developments, including pre-leasing and initial operating costs, partially offset by lower food and marketing expenses. Pandemic-related direct property operating expenses include investments in additional staffing including screening, employee recognition, compensation to frontline and management staff in our residences, personal protective equipment, and supplies to reduce and prevent the spread of the virus.

In Q3 2020, net loss was \$6.8 million compared to \$0.8 million in Q3 2019. The increase in net loss was primarily due to higher direct property operating expenses, finance costs and fair value losses recorded on financial instruments, partially offset by higher revenues and deferred income tax benefit.

For 2020 YTD, resident revenue increased \$15.4 million or 2.4% due to acquisitions and developments and revenue growth in our same property portfolio including pandemic-related government funding provided to partially defray additional expenses incurred related to the pandemic, partially offset by lower occupancy and the disposition of properties.

For 2020 YTD, direct property operating expenses increased \$28.9 million or 6.6% due to pandemic-related expenses and acquisitions and developments, partially offset by lower repairs and maintenance, food and marketing expenses.

In 2020 YTD, net income was \$2.7 million compared to \$12.6 million in 2019 YTD. The decrease in net income was primarily due to higher direct property operating expenses, finance costs, depreciation and amortization expenses, absence of remeasurement gain recorded in Q1 2019, and lower gain on disposal of assets, partially offset by fair value gains recorded on financial instruments, deferred income tax benefit, higher revenues, and lower impairment losses.

## FFO

FFO should not be construed as an alternative to net earnings or cash flow from operating activities as determined by GAAP. FFO as presented may not be comparable to similar measures used by other issuers. We present FFO substantially consistent with the definition adopted by REALPAC. This definition is included in the "Additional Information on Non-GAAP Financial Measures" section on page 47 of this MD&A.

We believe that the use of FFO, combined with the required primary GAAP presentations, is 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 of intangible assets (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 property, plant and

equipment ("PP&E"), distributions on Class B Units of Chartwell Master Care LP ("Class B Units") recorded as interest expense, change in fair value of financial instruments and foreign exchange gain/(loss), deferred income tax expense/(benefit), remeasurement gain, gain/(loss) on disposal of assets and adjustments for Equity-Accounted JVs. FFO can assist the user of the financial information in comparing the financial and operating performance of our real estate portfolio between financial reporting periods.

Refer to the "Additional Information on Non-GAAP Financial Measures – Funds from Operations" section on page 47 of this MD&A for the reconciliation of net income/(loss), the most closely comparable GAAP measure, to FFO and FFO per unit ("FFOPU") amounts.

The following table presents FFO and FFOPU:

| (\$000s, except per unit amounts) | Q3 2020 | Q3 2019 | Change   | 2020 YTD | 2019 YTD | Change   |
|-----------------------------------|---------|---------|----------|----------|----------|----------|
| FFO <sup>(1)</sup>                | 37,997  | 53,657  | (15,660) | 122,366  | 147,846  | (25,480) |
| FFOPU <sup>(1)</sup>              | 0.17    | 0.25    | (0.08)   | 0.56     | 0.68     | (0.12)   |

(1) Non-GAAP; refer to the "Additional Information on Non-GAAP Financial Measures" section on page 47 of this MD&A for a discussion of the calculation of the per unit amounts.

For Q3 2020, FFO was \$38.0 million or \$0.17 per unit, compared to \$53.7 million or \$0.25 per unit in Q3 2019. The following items impacted the change in FFO:

- lower adjusted NOI of \$12.2 million consisting of:
  - a \$13.0 million decrease in same property adjusted NOI comprised of:
    - an \$11.8 million decrease in same property adjusted Retirement Operations NOI primarily as a result of:
      - o reduced revenue related to lower occupancy of \$11.3 million
      - o pandemic-related expenses in excess of pandemic-related revenues of \$2.9 million,
      - o increased property tax expense as Q3 2019 included a successful reassessment appeal of \$1.1 million, and
      - o regular inflationary increases in compensation
    - partially offset by
      - o increased rental rates in line with competitive market conditions, and
      - o reduced marketing, food, supplies and repairs and maintenance expenses
    - a \$1.2 million decrease in same property adjusted Long Term Care Operations NOI as a result of investments in resident care continuing to exceed allotted government funding and lower preferred accommodation revenues
  - partially offset by
    - an increase in contributions from our acquisition, development and other property portfolio of \$0.8 million
- higher finance costs of \$1.9 million
- lower interest income of \$0.7 million and
- higher G&A expenses of \$0.5 million.

For Q3 2020, FFO was impacted by \$1.3 million of Lease-up-Losses and Imputed Cost of Debt related to our development projects (Q3 2019 – \$2.3 million).

For 2020 YTD, FFO was \$122.4 million or \$0.56 per unit, compared to \$147.8 million or \$0.68 per unit in 2019 YTD. The following items impacted the change in FFO:

- lower adjusted NOI of \$16.4 million consisting of:
  - a \$19.7 million decrease in same property adjusted NOI comprised of:
    - a \$16.8 million decrease in same property adjusted Retirement Operations NOI primarily as a result of:
      - o reduced revenue related to lower occupancy of \$21.7 million
      - o pandemic-related expenses in excess of pandemic-related revenues of \$8.1 million,
      - o increased property tax expense as Q3 2019 included a successful reassessment appeal of \$1.1 million
      - o regular inflationary increases in compensation
    - partially offset by
      - o increased rental rates in line with competitive market conditions
      - o reduced marketing, food, supplies and repairs and maintenance expenses
    - a \$2.8 million decrease in same property adjusted Long Term Care Operations NOI as a result of investments in resident care continuing to exceed allotted government funding and lower preferred accommodation revenues
    - a decrease in adjusted NOI due to the disposition of properties
  - partially offset by
    - an increase in contributions from our acquisition, development and other property portfolio of \$3.3 million
- higher finance costs of \$6.8 million
- higher depreciation of PP&E and amortization of intangible assets used for administrative purposes of \$1.1 million
- higher G&A expenses of \$0.8 million, and
- lower interest income of \$0.7 million
- partially offset by
  - higher management fee revenue of \$0.4 million.

For 2020 YTD, FFO was impacted by \$4.0 million of Lease-up-Losses and Imputed Cost of Debt related to our development projects (2019 YTD – \$6.5 million).

## Adjusted Resident Revenue, Adjusted Direct Property Operating Expenses and Adjusted NOI

The tables on the following pages of this section summarize our adjusted resident revenue, adjusted direct property operating expense and adjusted NOI and also include supplemental disclosure of our same property portfolio and our acquisitions, development and other portfolio. The supplemental disclosure of our same property portfolio and our acquisitions, development and other portfolio is non-GAAP and should not be construed as an alternative to GAAP measures. We use these groupings of properties to evaluate and monitor our financial and operating performance and we believe that this additional disclosure enhances the ability to understand and assess our results of operations and particularly to compare such results from period to period. The following provides definitions for each of these portfolio groupings as well as the composition of the portfolio included in the respective grouping for the current reporting period.

### Same Property Portfolio

Our same property portfolio excludes properties that have not been owned continuously since the beginning of the previous fiscal year or that are expected to be sold in the current fiscal year. In addition, to improve comparability, properties that are undergoing a significant redevelopment or where we have added or expect to add significant capacity in the current year are excluded from the same property portfolio.

The following table summarizes the composition of our same property portfolio as at September 30, 2020:

|                               | Properties | Suites/Beds | Suites/Beds at Chartwell's Share of Ownership |
|-------------------------------|------------|-------------|-----------------------------------------------|
| Retirement Operations         | 145        | 20,834      | 17,046                                        |
| Long Term Care Operations     | 19         | 2,676       | 2,676                                         |
| Total same property portfolio | 164        | 23,510      | 19,722                                        |

### Acquisitions, Development and Other Portfolio

Our acquisitions, development and other portfolio includes properties that were acquired after January 1, 2019, newly developed properties, properties that are undergoing a significant redevelopment, properties where we have added or expect to add significant capacity in the current year and assets held for sale. Generally, such properties are operating at occupancy levels below their expected stabilized occupancies.

The following table summarizes the composition of the acquisitions, development and other portfolio as at September 30, 2020:

|                                                     | Properties | Suites/Beds | Suites/Beds at Chartwell's Share of Ownership |
|-----------------------------------------------------|------------|-------------|-----------------------------------------------|
| Retirement Operations                               | 20         | 3,209       | 2,647                                         |
| Long Term Care Operations <sup>(1)</sup>            | 1          | 100         | 100                                           |
| Total acquisitions, development and other portfolio | 21         | 3,309       | 2,747                                         |

(1) Includes one Class C property subject to redevelopment where certain pre-development activities have recommenced.

Acquisitions, development and other portfolio includes four newly-developed and one recently-acquired retirement residence (746 suites at our share of ownership) with an aggregate gross book value of \$274.5 million. These residences had a weighted average occupancy of 44.2% and 41.5% in Q3 2020 and 2020 YTD, respectively, and generated adjusted NOI of \$0.7 million and \$1.8 million in Q3 2020 and 2020 YTD, respectively. Upon achieving the expected stabilized average occupancy of 96%, these residences are estimated to generate annualized adjusted NOI of \$20.3 million at our share of ownership.

The following table reconciles resident revenue and direct property operating expense from our financial statements to adjusted resident revenue and adjusted direct property operating expense and identifies contributions from our same property portfolio and our acquisition, development and other portfolio:

| (\$000s, except occupancy rates)                                                    | Q3 2020        | Q3 2019        | Change          | 2020 YTD       | 2019 YTD       | Change          |
|-------------------------------------------------------------------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|
| <b>Resident revenue</b>                                                             | <b>219,650</b> | <b>215,802</b> | <b>3,848</b>    | <b>654,932</b> | <b>639,534</b> | <b>15,398</b>   |
| Add: Share of resident revenue from joint ventures <sup>(1)</sup>                   | 28,700         | 28,775         | (75)            | 87,533         | 86,709         | 824             |
| <b>Adjusted resident revenue <sup>(2)</sup></b>                                     | <b>248,350</b> | <b>244,577</b> | <b>3,773</b>    | <b>742,465</b> | <b>726,243</b> | <b>16,222</b>   |
| Comprised of:                                                                       |                |                |                 |                |                |                 |
| Same property <sup>(2)</sup>                                                        | 224,493        | 220,081        | 4,412           | 668,967        | 654,251        | 14,716          |
| Acquisitions, development and other <sup>(2)</sup>                                  | 23,857         | 24,496         | (639)           | 73,498         | 71,992         | 1,506           |
| Adjusted resident revenue <sup>(2)</sup>                                            | 248,350        | 244,577        | 3,773           | 742,465        | 726,243        | 16,222          |
| <b>Direct property operating expense</b>                                            | <b>160,482</b> | <b>146,460</b> | <b>14,022</b>   | <b>466,118</b> | <b>437,179</b> | <b>28,939</b>   |
| Add: Share of direct property operating expenses from joint ventures <sup>(3)</sup> | 18,637         | 16,700         | 1,937           | 55,627         | 51,912         | 3,715           |
| <b>Adjusted direct property operating expense <sup>(2)</sup></b>                    | <b>179,119</b> | <b>163,160</b> | <b>15,959</b>   | <b>521,745</b> | <b>489,091</b> | <b>32,654</b>   |
| Comprised of:                                                                       |                |                |                 |                |                |                 |
| Same property <sup>(2)</sup>                                                        | 161,555        | 144,111        | 17,444          | 466,872        | 432,482        | 34,390          |
| Acquisitions, development and other <sup>(2)</sup>                                  | 17,564         | 19,049         | (1,485)         | 54,873         | 56,609         | (1,736)         |
| Adjusted direct property operating expense <sup>(2)</sup>                           | 179,119        | 163,160        | 15,959          | 521,745        | 489,091        | 32,654          |
| <b>Adjusted NOI <sup>(2)</sup></b>                                                  | <b>69,231</b>  | <b>81,417</b>  | <b>(12,186)</b> | <b>220,720</b> | <b>237,152</b> | <b>(16,432)</b> |
| Comprised of:                                                                       |                |                |                 |                |                |                 |
| Same property <sup>(2)</sup>                                                        | 62,938         | 75,970         | (13,032)        | 202,095        | 221,769        | (19,674)        |
| Acquisitions, development and other <sup>(2)</sup>                                  | 6,293          | 5,447          | 846             | 18,625         | 15,383         | 3,242           |
| Adjusted NOI <sup>(2)</sup>                                                         | 69,231         | 81,417         | (12,186)        | 220,720        | 237,152        | (16,432)        |
| Weighted average occupancy rate - same property portfolio                           | 83.3%          | 89.7%          | (6.4pp)         | 86.1%          | 90.1%          | (4.0pp)         |
| Weighted average occupancy rate - total portfolio                                   | 82.0%          | 88.3%          | (6.3pp)         | 84.7%          | 88.3%          | (3.6pp)         |

(1) Share of resident revenue from joint ventures represents Chartwell's pro rata share of the resident revenue of our Equity-Accounted JVs as referenced in the notes to our Financial Statements and as described in the "Joint Arrangements" section on page 14 of this MD&A.

(2) Non-GAAP; refer to the preamble to this table and the "Results of Operations by Reportable Segment" section on page 21 of this MD&A for explanations and discussion of the significance of these metrics.

(3) Share of direct property operating expenses from joint ventures represents Chartwell's pro rata share of the direct property operating expenses of our Equity-Accounted JVs as referenced in the notes to our Financial Statements and as described in the "Joint Arrangements" section on page 14 of this MD&A.

Adjusted resident revenue increased 1.5% in Q3 2020, due to a 2.0% increase in same property adjusted resident revenue, partially offset by lower revenue as a result of the disposition of properties. Same property adjusted resident revenue increased primarily due to rental rate increases in line with competitive market conditions and additional funding to defray pandemic-related expenses, partially offset by lower occupancies.

Adjusted direct property operating expense increased 9.8% in Q3 2020, due to a 12.1% increase in same property adjusted direct operating expense, partially offset by lower expenses as a result of the disposition of properties. The increase in same property adjusted direct operating expense was primarily due to additional expenses related to the pandemic, higher staffing costs, office, and property tax expenses, partially offset by lower marketing and food expenses.

Adjusted NOI decreased \$12.2 million or 15.0% in Q3 2020, due to a 17.2% decrease in same property adjusted NOI which was partially offset by contributions from our acquisition, development and other property portfolio.

In Q3 2020, same property occupancy declined 6.4 percentage points primarily due to reduced move-in activity, partially offset by reduced move-out activity, both as a result of the pandemic.



For 2020 YTD, adjusted resident revenue increased 2.2%, due to increases in same property adjusted resident revenue and growth from acquisitions and developments. Same property adjusted resident revenue increased primarily due to rental rate increases in line with competitive market conditions and additional funding to defray pandemic-related expenses, partially offset by lower occupancies.

For 2020 YTD, adjusted direct property operating expense increased 6.7%, due to an 8.0% increase in same property adjusted direct operating expense partially offset by lower expenses as a result of the disposition of properties. The increase in same property adjusted direct operating expense was primarily due to additional expenses related to the pandemic, higher staffing costs, office, and property tax expenses, as well as the additional costs incurred for the extra day due to the leap year. This was partially offset by lower marketing and repairs and maintenance expenses.

For 2020 YTD, adjusted NOI decreased \$16.4 million or 6.9%, due to an 8.9% decrease in same property adjusted NOI which was partially offset by contributions from our acquisition, development and other property portfolio.

For 2020 YTD, same property occupancy declined 4.0 percentage points primarily due to reduced move-in activity as a result of the pandemic.

## **Results of Operations by Reportable Segment**

We monitor and operate our retirement and long term care properties separately. Our Retirement Operations segment includes 165 communities that we own and operate in four provinces in Canada: British Columbia, Alberta, Ontario, and Quebec. Our retirement residences provide services to age-qualified residents at rates, in most cases, set by Chartwell based on the services provided and market conditions. Our Long Term Care Operations segment includes 20 homes in Ontario. Admission and funding for long term care is overseen by local government agencies. Where a residence 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.

The accounting policies of each of our segments are the same as those for Chartwell except that these segments include Chartwell's proportionate share of its joint ventures. Certain G&A expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses.

The measure of segment profit or loss is Adjusted NOI (which is resident revenue less direct property operating expense, including Chartwell's proportionate share of its joint ventures' resident revenue and direct property operating expense).

## Retirement Operations

The following table summarizes the composition of our Retirement Operations as at September 30, 2020:

|                                              | Properties | Composition of Suites |               |              |            |            | Total         |
|----------------------------------------------|------------|-----------------------|---------------|--------------|------------|------------|---------------|
|                                              |            | IL                    | ISL           | AL           | MC         | LTC        |               |
| <b>Same Property</b>                         |            |                       |               |              |            |            |               |
| 100% owned                                   | 105        | 610                   | 11,078        | 951          | 167        | 451        | 13,257        |
| 50% owned                                    | 40         | 593                   | 6,563         | 358          | 63         | -          | 7,577         |
| Total same property owned                    | 145        | 1,203                 | 17,641        | 1,309        | 230        | 451        | 20,834        |
| <b>Acquisitions, Development &amp; Other</b> |            |                       |               |              |            |            |               |
| 100% owned – operating                       | 13         | 130                   | 1,370         | 72           | 30         | -          | 1,602         |
| Partially owned – operating <sup>(1)</sup>   | 7          | -                     | 1,513         | 94           | -          | -          | 1,607         |
| Total acquisitions, development & other      | 20         | 130                   | 2,883         | 166          | 30         | -          | 3,209         |
| <b>Total</b>                                 | <b>165</b> | <b>1,333</b>          | <b>20,524</b> | <b>1,475</b> | <b>260</b> | <b>451</b> | <b>24,043</b> |

(1) We own an 85% interest in four of these properties, a 60% interest in one property, a 45% interest in one property and a 42.5% interest in one property.

During 2020 YTD, we sold one non-core retirement residences in Quebec with 195 suites.

The following table presents the results of our Retirement Operations as at September 30, 2020:

| (\$000s, except occupancy rates)                          | Q3 2020        | Q3 2019        | Change          | 2020 YTD       | 2019 YTD       | Change          |
|-----------------------------------------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|
| <b>Adjusted resident revenue</b>                          | <b>183,541</b> | <b>184,759</b> | <b>(1,218)</b>  | <b>556,943</b> | <b>549,409</b> | <b>7,534</b>    |
| <i>Comprised of:</i>                                      |                |                |                 |                |                |                 |
| Same property <sup>(1)</sup>                              | 162,287        | 167,866        | (5,579)         | 495,756        | 500,044        | (4,288)         |
| Acquisitions, development and other <sup>(1)</sup>        | 21,254         | 16,893         | 4,361           | 61,187         | 49,365         | 11,822          |
| <b>Adjusted direct property operating expense</b>         | <b>121,066</b> | <b>111,556</b> | <b>9,510</b>    | <b>356,034</b> | <b>336,045</b> | <b>19,989</b>   |
| <i>Comprised of:</i>                                      |                |                |                 |                |                |                 |
| Same property <sup>(1)</sup>                              | 105,643        | 99,388         | 6,255           | 312,599        | 300,040        | 12,559          |
| Acquisitions, development and other <sup>(1)</sup>        | 15,423         | 12,168         | 3,255           | 43,435         | 36,005         | 7,430           |
| <b>Adjusted NOI</b>                                       | <b>62,475</b>  | <b>73,203</b>  | <b>(10,728)</b> | <b>200,909</b> | <b>213,364</b> | <b>(12,455)</b> |
| <i>Comprised of:</i>                                      |                |                |                 |                |                |                 |
| Same property <sup>(1)</sup>                              | 56,644         | 68,478         | (11,834)        | 183,157        | 200,004        | (16,847)        |
| Acquisitions, development and other <sup>(1)</sup>        | 5,831          | 4,725          | 1,106           | 17,752         | 13,360         | 4,392           |
| Weighted average occupancy rate - same property portfolio | 82.5%          | 88.3%          | (5.8pp)         | 85.0%          | 88.8%          | (3.8pp)         |
| Weighted average occupancy rate - total portfolio         | 81.3%          | 86.6%          | (5.3pp)         | 83.4%          | 86.7%          | (3.3pp)         |

(1) Non-GAAP; refer to the "Adjusted Resident Revenue, Adjusted Direct Property Operating Expenses and Adjusted NOI" section on page 19 of this MD&A for explanations of 'Same property' and 'Acquisitions, development and other' and the significance of these metrics.

Adjusted resident revenue decreased 0.7% in Q3 2020, due to a 3.3% decrease in same property adjusted resident revenue partially offset by growth from our acquisitions and developments. The decrease in same property adjusted resident revenue was due to lower occupancies of \$11.3 million partially offset by rental increases in line with competitive market conditions, and funding to defray pandemic-related expenses of \$1.1 million.

Adjusted direct property operating expense increased 8.5% in Q3 2020, due to a 6.3% increase in same property adjusted direct operating expense and growth in our acquisitions, development and other portfolio. The increase in same property adjusted direct operating expense was primarily due to additional expenses

related to the pandemic of \$4.0 million, higher property tax, utilities partially offset by lower food, marketing and supplies expenses.

Adjusted NOI decreased \$10.7 million or 14.7% in Q3 2020 primarily due to a 17.3% decrease in same property adjusted NOI as a result of the following:

- Our Ontario platform same property adjusted NOI decreased \$6.9 million or 18.3%, primarily due to lower occupancies, pandemic-related expenses net of funding were \$2.4 million, higher property tax, utilities, and office expenses, partially offset by rental rate increases in line with competitive market conditions, and lower food and marketing expenses.
- Our Western Canada platform same property adjusted NOI decreased \$1.5 million or 9.9%, primarily due to lower occupancies, higher property tax, staffing costs and office expenses, partially offset by rental rate increases in line with competitive market conditions, funding to partially defray additional expenses related to the pandemic, and lower food and marketing expenses.
- Our Quebec platform same property adjusted NOI decreased \$3.4 million or 21.8%, primarily due to lower occupancies, higher property tax resulting from the property tax rebate in 2019 for which there is not a comparable amount in Q3 2020, pandemic-related expenses net of funding of \$0.6 million and staffing costs partially offset by rental rate increases in line with competitive market conditions, and lower food and marketing expenses.

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

|                | Q3 2020 | Q3 2019 | Change  | Q2 2020 | Change  |
|----------------|---------|---------|---------|---------|---------|
| Ontario        | 77.5%   | 83.8%   | (6.3pp) | 79.2%   | (1.7pp) |
| Western Canada | 88.3%   | 95.0%   | (6.7pp) | 91.2%   | (2.9pp) |
| Quebec         | 86.7%   | 91.2%   | (4.5pp) | 88.8%   | (2.1pp) |
| Combined       | 82.5%   | 88.3%   | (5.8pp) | 84.6%   | (2.1pp) |

In Q3 2020, occupancy in our retirement same property portfolio was 82.5%, a decrease of 5.8 percentage points compared to Q3 2019 and a decrease of 2.1 percentage points compared to Q2 2020. The decrease in occupancy compared to Q3 2019 is primarily due to reduced move-in activity of approximately 30%, partially offset by reduced move-out activity of approximately 8%, both as a result of the pandemic. The decrease in occupancy compared to Q2 2020 is primarily due to increased move-in activity of approximately 80%, partially offset by increased move-out activity of approximately 9%, as more normal activities were resuming through Q3 2020.

For 2020 YTD, adjusted resident revenue increased 1.4% due to growing contributions from our acquisitions and developments, partially offset by 0.9% decrease in same property adjusted resident revenue which is primarily related to lower occupancies offset by regular annual rental rate increases in line with competitive market conditions as well as \$2.4 million of pandemic related revenue.

For 2020 YTD, adjusted direct property operating expense increased 5.9% due to a 4.2% increase in same property adjusted direct operating expense and growth in our acquisitions, development and other portfolio. The increase in same property adjusted direct operating expense was primarily due to additional expenses related to the pandemic of \$10.5 million, higher property tax, and staffing costs partially offset by lower food, marketing, supplies, and repairs and maintenance expenses.

For 2020 YTD, adjusted NOI decreased \$12.5 million or 5.8% primarily due to an 8.4% decrease in same property adjusted NOI as a result of the following:

- Our Ontario platform same property adjusted NOI decreased \$9.8 million or 8.7%, primarily due to lower occupancies, pandemic-related expenses net of funding of \$4.9 million, higher property tax, utilities, and office expenses, partially offset by rental rate increases in line with competitive market conditions, lower marketing, food, supplies and repairs and maintenance expenses.

- Our Western Canada platform same property adjusted NOI decreased \$2.0 million or 4.7%, primarily due to lower occupancies, pandemic-related expenses net of funding of \$1.3 million, higher property tax, and office expenses, partially offset by rental rate increases in line with competitive market conditions, funding to partially defray additional expenses related to the pandemic, lower marketing, supplies, and repairs and maintenance expenses.
- Our Quebec platform same property adjusted NOI decreased \$5.0 million or 11.3%, primarily due to lower occupancies, higher property tax resulting from the one-time property tax credit received in 2019 for which there is not a comparable amount in 2020 YTD, higher office, staffing costs, and pandemic-related expenses net of funding of \$1.9 million, partially offset by rental rate increases in line with competitive market conditions, lower utilities, marketing, and repairs and maintenance expenses.

## Long Term Care Operations

The following table summarizes the composition of our Long Term Care Operations as at September 30, 2020:

|                                                    | Properties | Composition of Suites |     |    |    |       | Total |
|----------------------------------------------------|------------|-----------------------|-----|----|----|-------|-------|
|                                                    |            | IL                    | ISL | AL | MC | LTC   |       |
| Same property                                      | 19         | -                     | 75  | -  | -  | 2,601 | 2,676 |
| Acquisitions, development and other <sup>(1)</sup> | 1          | -                     | -   | -  | -  | 100   | 100   |
| Total                                              | 20         | -                     | 75  | -  | -  | 2,701 | 2,776 |

(1) Includes one Class C property subject to redevelopment where certain pre-development activities have recommenced.

During 2020 YTD, we sold four LTC residences in Ontario with an aggregate of 299 beds.

The following table presents the results of our Long Term Care Operations as at September 30, 2020:

| (\$000s, except occupancy rates)                          | Q3 2020       | Q3 2019       | Change         | 2020 YTD       | 2019 YTD       | Change         |
|-----------------------------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| <b>Adjusted resident revenue</b>                          | <b>64,809</b> | <b>59,818</b> | <b>4,991</b>   | <b>185,522</b> | <b>176,834</b> | <b>8,688</b>   |
| Comprised of:                                             |               |               |                |                |                |                |
| Same property <sup>(1)</sup>                              | 62,206        | 52,215        | 9,991          | 173,211        | 154,207        | 19,004         |
| Acquisitions, development and other <sup>(1)</sup>        | 2,603         | 7,603         | (5,000)        | 12,311         | 22,627         | (10,316)       |
| <b>Adjusted direct property operating expenses</b>        | <b>58,053</b> | <b>51,604</b> | <b>6,449</b>   | <b>165,711</b> | <b>153,046</b> | <b>12,665</b>  |
| Comprised of:                                             |               |               |                |                |                |                |
| Same property <sup>(1)</sup>                              | 55,912        | 44,723        | 11,189         | 154,273        | 132,442        | 21,831         |
| Acquisitions, development and other <sup>(1)</sup>        | 2,141         | 6,881         | (4,740)        | 11,438         | 20,604         | (9,166)        |
| <b>Adjusted NOI</b>                                       | <b>6,756</b>  | <b>8,214</b>  | <b>(1,458)</b> | <b>19,811</b>  | <b>23,788</b>  | <b>(3,977)</b> |
| Comprised of:                                             |               |               |                |                |                |                |
| Same property <sup>(1)</sup>                              | 6,294         | 7,492         | (1,198)        | 18,938         | 21,765         | (2,827)        |
| Acquisitions, development and other <sup>(1)</sup>        | 462           | 722           | (260)          | 873            | 2,023          | (1,150)        |
| Weighted average occupancy rate - same property portfolio | 88.3%         | 98.8%         | (10.5pp)       | 93.1%          | 98.6%          | (5.5pp)        |
| Weighted average occupancy rate - total portfolio         | 87.4%         | 98.8%         | (11.4pp)       | 93.0%          | 98.5%          | (5.5pp)        |

(1) Non-GAAP; refer to the "Adjusted Resident Revenue, Adjusted Direct Property Operating Expenses and Adjusted NOI" section on page 19 of this MD&A for explanations of 'Same property' and 'Acquisitions, development and other' and the significance of these metrics.

Adjusted NOI decreased \$1.5 million or 17.8% in Q3 2020. Same property adjusted NOI decreased 16.0%. Ontario's long term care funding is delivered via four distinct envelopes allocated to: nursing and personal care ("NPC"); programming and support services ("PSS"); food; and administration. The first three envelopes must be spent entirely on residents and any surplus funding from the first three envelopes is returned to the government on filing of the annual audited long term care home financial returns which are independently audited. In Q3 2020, our expenditures for nursing and personal care have exceeded the government funding for these envelopes, our incremental pandemic-related expenditures have exceeded the special purpose pandemic funding announced to date, and our preferred accommodation revenues are lower due to lower occupancy, each of which reduced same property adjusted NOI.

For 2020 YTD, adjusted NOI decreased \$4.0 million or 16.7%. Same property adjusted NOI decreased 13.0% of which \$0.3 million relates to lower preferred accommodation revenues, \$0.3 million relates to NPC expenses in excess of government funded amounts, and \$2.0 million relates to incremental pandemic-related expenditures that have exceeded the special purpose pandemic funding. This was partially offset by lower property tax expenses.

Occupancies have declined in our Ontario long term care homes as the government has ceased admissions to three and four bed ward style rooms. It is estimated that this will reduce long term care capacity in Ontario by approximately 4,500 beds. In addition, admissions are not taken when homes are in outbreak. The Ontario government has announced that occupancy protection funding will be in place for our long term care homes until December 31, 2020.

## Management and Other Fees

| (\$000s)                        | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|---------------------------------|---------|---------|--------|----------|----------|--------|
| Welltower                       | 1,457   | 1,740   | (283)  | 4,792    | 5,138    | (346)  |
| Other                           | 967     | 925     | 42     | 3,346    | 2,628    | 718    |
| Total management and other fees | 2,424   | 2,665   | (241)  | 8,138    | 7,766    | 372    |

In Q3 2020, management and other fees decreased \$0.2 million, primarily due to lower development fees.

For 2020 YTD, management and other fees increased \$0.4 million primarily due to increased revenue from the transfer of several properties to operations and certain transaction-related fees, partially offset by lower development fees.

## Interest Income

| (\$000s)                            | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|-------------------------------------|---------|---------|--------|----------|----------|--------|
| Interest income on loans receivable | 302     | 469     | (167)  | 1,058    | 1,365    | (307)  |
| Interest income on capital funding  | 460     | 549     | (89)   | 1,470    | 1,711    | (241)  |
| Other interest income               | 96      | 264     | (168)  | 557      | 438      | 119    |
| Total interest income               | 858     | 1,282   | (424)  | 3,085    | 3,514    | (429)  |

In Q3 2020 and 2020 YTD, interest income on loans receivable decreased \$0.2 million and \$0.3 million, respectively, primarily due to lower loan balances.

In Q3 2020 and 2020 YTD, interest income on capital funding decreased \$0.1 million and \$0.2 million, respectively, due to lower receivable balances outstanding.

Other interest income decreased \$0.2 million in Q3 2020 and increased \$0.1 million 2020 YTD primarily due to the fluctuations in cash balances during these periods.

## General, Administrative and Trust Expenses

| (\$000s)     | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|--------------|---------|---------|--------|----------|----------|--------|
| G&A expenses | 9,719   | 9,194   | 525    | 35,221   | 34,402   | 819    |

G&A expenses increased \$0.5 million in Q3 2020 primarily due to higher staffing costs, partially offset by lower lease and travel expenses.

G&A expenses increased \$0.8 million in 2020 YTD primarily due to a \$0.5 million contribution to provide startup funding to support the Senior Living CaRES fund (“the CaRES Fund”) initiated by the founding members, Chartwell Retirement Residences, Revera Inc., Extencicare and Sienna Senior Living, for senior living employees to provide emergency funding and support to employees or their family members, regular inflation in staffing costs, and a contractually determined payment on retirement to the former President & CEO, partially offset by lower non-cash compensation costs as a result of changes in value of our Trust Units and lower lease and travel expenses.

## Finance Costs

| (\$000s)                                                                          | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|-----------------------------------------------------------------------------------|---------|---------|--------|----------|----------|--------|
| Contractual interest expense on mortgages                                         | 17,898  | 17,975  | (77)   | 53,425   | 53,139   | 286    |
| Comprised of:                                                                     |         |         |        |          |          |        |
| Same property <sup>(1)</sup>                                                      | 14,814  | 15,347  | (533)  | 44,900   | 45,258   | (358)  |
| Acquisitions, development and other <sup>(1)</sup>                                | 3,084   | 2,628   | 456    | 8,525    | 7,881    | 644    |
| Interest expense on Debentures <sup>(2)</sup>                                     | 3,463   | 3,500   | (37)   | 10,388   | 10,387   | 1      |
| Interest expense on Credit Facilities                                             | 807     | 644     | 163    | 3,049    | 1,992    | 1,057  |
| Interest expense on unsecured term loan                                           | 1,167   | -       | 1,167  | 3,323    | -        | 3,323  |
|                                                                                   | 23,335  | 22,119  | 1,216  | 70,185   | 65,518   | 4,667  |
| Amortization of finance costs and mark-to-market adjustments on assumed mortgages | 736     | 429     | 307    | 1,863    | 1,159    | 704    |
|                                                                                   | 24,071  | 22,548  | 1,523  | 72,048   | 66,677   | 5,371  |
| Interest capitalized to properties under development                              | (896)   | (1,155) | 259    | (2,566)  | (3,643)  | 1,077  |
| Distributions on Class B Units recorded as interest expense                       | 234     | 240     | (6)    | 709      | 722      | (13)   |
| Total finance costs                                                               | 23,409  | 21,633  | 1,776  | 70,191   | 63,756   | 6,435  |

(1) Non-GAAP; refer to the “Adjusted Resident Revenue, Adjusted Direct Property Operating Expenses and Adjusted NOI” section on page 19 of this MD&A for explanations of ‘Same property’ and ‘Acquisitions, development and other’ and the significance of these metrics.

(2) “Debentures” refers collectively to the “Series A Debentures” and the “Series B Debentures”. See the “Liquidity and Capital Resources – Debt – Debentures” section on page 32 of this MD&A for details.

Contractual interest expense on mortgages decreased \$0.1 million in Q3 2020 primarily due to lower mortgage balances in our same property portfolio, partially offset by higher mortgage balances in our acquisitions, development and other portfolio. For 2020 YTD, contractual interest expense on mortgages increased \$0.3 million primarily due to higher mortgage balances.

Interest expense on Credit Facilities increased \$0.2 million and \$1.1 million in Q3 2020 and 2020 YTD, respectively, primarily due to increased borrowings on the secured credit facility.

Interest expense on unsecured term loan relates to the unsecured term loan drawn on December 10, 2019.

Interest capitalized to properties under development decreased \$0.3 million and \$1.1 million in Q3 2020 and 2020 YTD, respectively, primarily due to construction completion and transfer of several properties to operations.



The following table provides supplemental information related to finance costs for our Equity-Accounted JVs:

| (\$000s)                                             | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|------------------------------------------------------|---------|---------|--------|----------|----------|--------|
| Contractual interest expense on mortgages            | 438     | 502     | (64)   | 1,413    | 1,579    | (166)  |
| Comprised of:                                        |         |         |        |          |          |        |
| Same property <sup>(1)</sup>                         | 291     | 300     | (9)    | 874      | 1,022    | (148)  |
| Acquisitions, development and other <sup>(1)</sup>   | 147     | 202     | (55)   | 539      | 557      | (18)   |
| Amortization of finance costs                        | 11      | 11      | -      | 34       | 35       | (1)    |
| Interest capitalized to properties under development | -       | (139)   | 139    | -        | (495)    | 495    |
| Total finance costs                                  | 449     | 374     | 75     | 1,447    | 1,119    | 328    |

(1) Non-GAAP; refer to the "Adjusted Resident Revenue, Adjusted Direct Property Operating Expenses and Adjusted NOI" section on page 19 of this MD&A for explanations of 'Same property' and 'Acquisitions, development and other' and the significance of these metrics.

## Other Income/(Expense)

| (\$000s)                                                   | Q3 2020 | Q3 2019  | Change  | 2020 YTD | 2019 YTD | Change   |
|------------------------------------------------------------|---------|----------|---------|----------|----------|----------|
| Transaction costs arising on acquisitions and dispositions | (99)    | (310)    | 211     | (690)    | (1,273)  | 583      |
| Impairment losses                                          | -       | (19,500) | 19,500  | (3,200)  | (19,500) | 16,300   |
| Remeasurement gain                                         | -       | -        | -       | -        | 39,172   | (39,172) |
| Gain/(loss) on sale of assets                              | (3,101) | 2,613    | (5,714) | 2,071    | 5,057    | (2,986)  |
| Other income                                               | 272     | 151      | 121     | 599      | 546      | 53       |
| Total other income/(expense)                               | (2,928) | (17,046) | 14,118  | (1,220)  | 24,002   | (25,222) |

Transaction costs arising on business combinations and dispositions are expensed as incurred and fluctuate from period to period based on the timing and volume of transactions.

In 2019 YTD, we recorded a write down in the carrying value of our retirement residences due to a decline in the operating performance resulting from competitive pressures. Additional impairment charges were recorded to certain of these retirement residences in 2020 YTD, from a temporary decline in the estimated future cash flows used in the impairment model to reflect the impact of the pandemic.

In Q1 2019, we acquired the remaining interests in Clair Hills and Oak Ridges Retirement Residences. Chartwell previously owned all the outstanding Class C units and affiliates of the vendors owned all outstanding Class R units in limited partnerships that held these retirement residences. Chartwell's interests in these two properties were previously accounted for as investments in joint ventures using the equity method of accounting. Under IFRS, the acquisition of the remaining interests in these properties required revaluation of the existing interest. This remeasurement resulted in a gain of \$39.2 million in Q1 2019.

The loss on sale of assets in Q3 2020 primarily relates to prepayment penalties associated with the discharge of mortgages related to the sale of three non-core retirement residences in Alberta and three non-core retirement residences in Ontario as described in the "Significant Events – Dispositions" section of this MD&A. For 2020 YTD, the gain on the sale of the Four LTC Residences and the sale of one non-core retirement residence located in Quebec was partially offset by the prepayment penalties.

## Other Items

| (\$000s)                                                                       | Q3 2020  | Q3 2019  | Change  | 2020 YTD  | 2019 YTD  | Change  |
|--------------------------------------------------------------------------------|----------|----------|---------|-----------|-----------|---------|
| Depreciation of PP&E and amortization of intangible assets                     | (43,660) | (42,027) | (1,633) | (137,257) | (133,560) | (3,697) |
| Change in fair value of financial instruments and foreign exchange gain/(loss) | (617)    | 2,774    | (3,391) | 8,202     | (6,350)   | 14,552  |
| Deferred income tax benefit/(expense)                                          | 2,286    | 1,363    | 923     | 10,917    | (19,098)  | 30,015  |

Depreciation of PP&E and amortization of intangible assets increased \$1.6 million in Q3 2020 and \$3.7 million in 2020 YTD, primarily due to the transfer of software under development to operations.

Change in fair value of financial instruments and foreign exchange gain/(loss) is primarily resulting from changes in the market value of the underlying financial instruments and estimated values of amounts receivable under income guarantees. These amounts are expected to fluctuate from period to period due to changes in financial markets and operating performance of properties subject to income guarantees.

The deferred income tax benefit in Q3 2020 primarily relates to the reversal of temporary differences on the accounting and tax basis of PP&E, and for 2020 YTD, the deferred income tax benefit primarily relates to impairment provisions and fair value adjustments on interest rate swaps and the reversal of temporary differences on the accounting and tax basis of PP&E. In 2019 YTD, we recognized deferred income tax expense related to the step accounting adjustments on the acquisition of the remaining interests in two joint ventures, Clair Hills and Oak Ridges Retirement Residences, accounted for as business combinations for which there is not a comparable amount in 2020 YTD.

## Cash Flow Analysis

The following table summarizes the significant changes in our operating, financing and investing cash flows between Q3 2020 and Q3 2019 using our consolidated statements of cash flows:

| Cash Provided by<br>(Used in): | Increase<br>(Decrease)<br>(\$millions) | Explanation                                                                                                                                                                                                                 |
|--------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operating activities           | (9.4)                                  | Change in cash flows from operating activities is primarily due to lower Adjusted NOI, changes in working capital, and higher interest paid.                                                                                |
| Financing activities           | 0.2                                    | Change in cash flows from financing activities is due to higher utilization of our credit facilities, partially offset by lower proceeds from mortgage financing, higher mortgage repayments and higher distributions paid. |
| Investing activities           | 9.0                                    | Change in cash flows from investing activities is primarily due to lower additions to PP&E and intangible assets, partially offset by lower proceeds from disposal of PP&E and assets held for sale.                        |

The following table summarizes the significant changes in our operating, financing and investing cash flows between 2020 YTD and 2019 YTD using our consolidated statements of cash flows:

| Cash Provided by<br>(Used in): | Increase<br>(Decrease)<br>(\$millions) | Explanation                                                                                                                                                                                                                                                    |
|--------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operating activities           | (6.8)                                  | Change in cash flows from operating activities is primarily due to lower Adjusted NOI, changes in working capital, and higher interest paid.                                                                                                                   |
| Financing activities           | 2.5                                    | Change in cash flows from financing activities is due to higher utilization of our credit facilities, partially offset by lower proceeds from mortgage financing activities, higher mortgage repayments, and higher distributions paid.                        |
| Investing activities           | 45.3                                   | Change in cash flows from investing activities is primarily due to lower additions to PP&E and intangible assets and higher proceeds from disposition of PP&E and assets held for sale, partially offset by higher cash outlays for acquisition of properties. |

## Liquidity and Capital Resources

### Liquidity

Our liquidity and capital resources are used to fund capital investments in our properties, development and acquisition activities, servicing of our debt obligations, and distributions to our unitholders. Our principal source of liquidity is net operating income generated from our property operations. We also finance our operations through the use of property-specific mortgages, secured and unsecured credit facilities, unsecured term loans, senior unsecured debentures, and equity financing.

At September 30, 2020, our liquidity was \$357.8 million as presented in the following table:

| (\$000s)                          | September 30, 2020 | December 31, 2019 |
|-----------------------------------|--------------------|-------------------|
| Cash and cash equivalents         | 51,387             | 22,890            |
| Available under Credit Facilities | 306,391            | 391,781           |
| Total                             | 357,778            | 414,671           |

In addition, at September 30, 2020, our share of cash and cash equivalents held in our Equity-Accounted JVs was \$7.6 million.

As at September 30, 2020, our current liabilities totalled \$521.8 million, exceeding our current assets of \$152.6 million, resulting in a working capital deficiency of \$369.2 million. Current liabilities include an amount of \$315.9 million of current mortgages payable, comprised of \$240 million related to maturing balances, and \$75.9 million related to principal amortization and unamortized mark-to-market adjustments net of unamortized finance costs. We expect to refinance these mortgages in the normal course at, or in some cases prior to, their maturities. We expect to be able to meet all of our obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from our operations, (ii) property-specific mortgages, (iii) secured and unsecured credit facilities, and (iv) unsecured term loans. In addition, subject to market conditions, we may continue to dispose of certain non-core assets and seek to raise funds through new secured term loans, senior unsecured debentures or equity financing.

### Debt

Our debt portfolio currently consists of property-specific mortgages, Debentures, Credit Facilities, and an unsecured term loan. Our debt management objective is to maximize financial flexibility and to maintain a strong balance sheet by:

- accessing low-cost, long-term, fixed-rate debt and short-term, variable-rate financing;
- managing interest rate risk by spreading debt maturities over time with the target of having no more than approximately 10% of the principal of our total debt maturing in any year;
- proactively managing our short-term maturities and where appropriate, refinancing maturing mortgages with long-term debt; and
- growing our unencumbered asset pool.

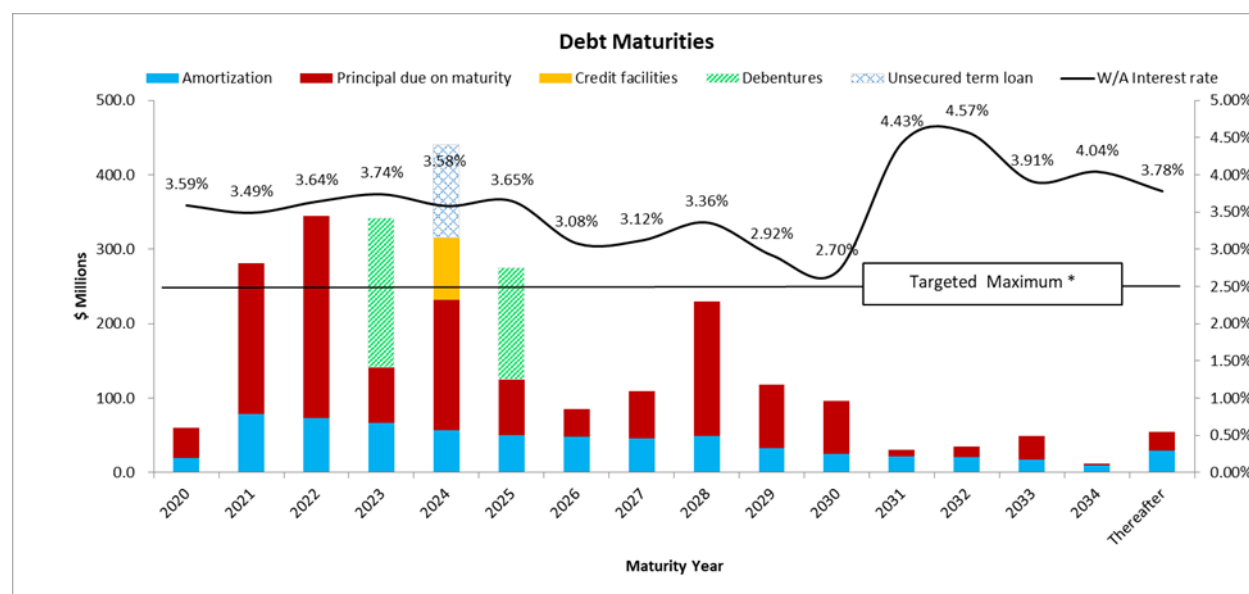
The following table summarizes the components of the principal balance of our debt at September 30, 2020 and December 31, 2019:

| (\$000s)            | September 30, 2020 | December 31, 2019 |
|---------------------|--------------------|-------------------|
| Mortgages payable   | 2,005,699          | 1,975,089         |
| Series A Debentures | 200,000            | 200,000           |
| Series B Debentures | 150,000            | 150,000           |
| Unsecured term loan | 125,000            | 125,000           |
| Credit facilities   | 84,000             | -                 |
| Total               | 2,564,699          | 2,450,089         |

The following table summarizes the scheduled principal maturity and weighted average interest rates for our debt portfolio at September 30, 2020:

| (\$000s)             | Amortizing<br>Principal<br>Payments | Principal<br>Due at<br>Maturity | Total<br>Mortgages | Weighted<br>Average<br>Interest<br>Rate | Debtures | Weighted<br>Average<br>Interest<br>Rate | Unsecured<br>Term Loan | Weighted<br>Average<br>Interest<br>Rate | Credit<br>Facilities | Weighted<br>Average<br>Interest<br>Rate | Total     | Consolidated<br>Weighted<br>Average<br>Interest Rate |
|----------------------|-------------------------------------|---------------------------------|--------------------|-----------------------------------------|----------|-----------------------------------------|------------------------|-----------------------------------------|----------------------|-----------------------------------------|-----------|------------------------------------------------------|
| Remainder<br>of 2020 | 19,853                              | 40,572                          | 60,425             | 3.59%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 60,425    | 3.59%                                                |
| 2021                 | 78,570                              | 202,888                         | 281,458            | 3.49%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 281,458   | 3.49%                                                |
| 2022                 | 73,428                              | 271,430                         | 344,858            | 3.64%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 344,858   | 3.64%                                                |
| 2023                 | 66,962                              | 74,504                          | 141,466            | 3.67%                                   | 200,000  | 3.79%                                   | -                      | -                                       | -                    | -                                       | 341,466   | 3.74%                                                |
| 2024                 | 57,232                              | 174,647                         | 231,879            | 3.69%                                   | -        | -                                       | 125,000                | 3.70%                                   | 84,000               | 3.10%                                   | 440,879   | 3.58%                                                |
| 2025                 | 50,654                              | 74,012                          | 124,666            | 2.97%                                   | 150,000  | 4.21%                                   | -                      | -                                       | -                    | -                                       | 274,666   | 3.65%                                                |
| 2026                 | 48,419                              | 37,235                          | 85,654             | 3.08%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 85,654    | 3.08%                                                |
| 2027                 | 45,895                              | 63,176                          | 109,071            | 3.12%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 109,071   | 3.12%                                                |
| 2028                 | 48,753                              | 180,955                         | 229,708            | 3.36%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 229,708   | 3.36%                                                |
| 2029                 | 32,642                              | 85,729                          | 118,371            | 2.92%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 118,371   | 2.92%                                                |
| 2030                 | 25,454                              | 70,721                          | 96,175             | 2.70%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 96,175    | 2.70%                                                |
| 2031                 | 21,504                              | 9,490                           | 30,994             | 4.43%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 30,994    | 4.43%                                                |
| 2032                 | 20,335                              | 14,978                          | 35,313             | 4.57%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 35,313    | 4.57%                                                |
| 2033                 | 17,763                              | 31,221                          | 48,984             | 3.91%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 48,984    | 3.91%                                                |
| 2034                 | 10,157                              | 1,621                           | 11,778             | 4.04%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 11,778    | 4.04%                                                |
| Thereafter           | 29,921                              | 24,978                          | 54,899             | 3.78%                                   | -        | -                                       | -                      | -                                       | -                    | -                                       | 54,899    | 3.78%                                                |
| Total                | 647,542                             | 1,358,157                       | 2,005,699          | 3.45%                                   | 350,000  | 3.97%                                   | 125,000                | 3.70%                                   | 84,000               | 3.10%                                   | 2,564,699 | 3.52%                                                |

The following chart provides a breakdown of our debt maturities at September 30, 2020:



\* 10% of total debt = \$256.5 million

## Mortgage Debt

We generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). As of September 30, 2020, approximately 70% of our total mortgage debt was CMHC insured. The balance of our mortgage debt (approximately 30%) is conventional, generally because it does not qualify for CMHC insurance (construction debt, long term care, second charges). We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt upon renewal.

The following table summarizes the changes in the principal balance of our mortgage portfolio in 2020 YTD:

|                                                 | Balance<br>(\$000s) | Weighted<br>Average<br>Term to Maturity<br>(Years) | Weighted<br>Average<br>Interest Rate | % CMHC<br>Insured |
|-------------------------------------------------|---------------------|----------------------------------------------------|--------------------------------------|-------------------|
| Principal balance at December 31, 2019          | 1,975,089           | 6.8                                                | 3.68%                                | 71%               |
| Payouts and matured in the period               | (83,578)            | -                                                  | 3.33%                                | 27%               |
| Assumed mortgages                               | 40,832              | 0.3                                                | 4.14%                                | -                 |
| New mortgage financings                         | 149,407             | 5.7                                                | 2.24%                                | 64%               |
| Amortizing principal repayments                 | (57,783)            | N/A                                                | N/A                                  | N/A               |
| Adjustment for assets held for sale             | (18,268)            | -                                                  | -                                    | -                 |
| Principal balance at September 30, 2020         | 2,005,699           | 6.4                                                | 3.45%                                | 70%               |
| Mark-to-market adjustments on assumed mortgages | 7,682               |                                                    |                                      |                   |
| Finance costs                                   | (41,549)            |                                                    |                                      |                   |
| Mortgages payable at September 30, 2020         | 1,971,832           |                                                    |                                      |                   |

Assumed mortgages relate to the acquisition of Chartwell Le St-Gabriel on March 2, 2020, and the acquisition of Chartwell L'Unique III on May 1, 2020.

New mortgage financings include:

- the refinancing of seven mortgages, six previously CMHC insured, and the mortgage for Chartwell L'Unique III, with CMHC-insured mortgages totalling \$95.8 million with a weighted average interest rate of 1.74% and a weighted average term to maturity of 7.8 years;
- one conventional mortgage of \$45.8 million with a 3.40% interest rate and a 1.9-year remaining term to maturity; and
- construction financing draws for two properties under development of \$7.8 million with a weighted average interest rate of 1.66% and a weighted average term to maturity of 2.4 years.

In June 2020, CMHC announced changes to its multi-unit residential loan insurance underwriting guidelines requiring borrowers to show reinvestment in related housing stock. These new guidelines have not had a significant effect on our refinancing as we continue to invest in capital improvements to our existing portfolio, and develop and acquire seniors living residences, such that we meet the requirements of the new guidelines.

On October 30, 2020, the mortgage assumed on the acquisition of Chartwell Le St-Gabriel was refinanced with a CMHC-insured mortgage of \$20.9 million bearing interest at 1.75% and a term to maturity of 10 years.

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

|                                  | At September 30, 2020 |               | At December 31, 2019 |           |
|----------------------------------|-----------------------|---------------|----------------------|-----------|
|                                  | Fixed Rate            | Variable Rate | Total                | Total     |
| Principal amount (\$000s)        | 1,868,129             | 137,570       | 2,005,699            | 1,975,089 |
| Weighted average interest rate   | 3.51%                 | 2.64%         | 3.45%                | 3.68%     |
| Average term to maturity (years) | 6.9                   | 0.5           | 6.4                  | 6.8       |

The following tables are supplemental information and summarize the components of our debt at September 30, 2020 and December 31, 2019 for our Equity-Accounted JVs:

| (\$000s)                                | September 30, 2020 | December 31, 2019 |
|-----------------------------------------|--------------------|-------------------|
| Principal balance of mortgages payable  | 53,105             | 48,847            |
| Finance costs                           | (62)               | (93)              |
| Mortgages payable at September 30, 2020 | 53,043             | 48,754            |

| (\$000s)            | Amortizing Principal Payments | Principal Due at Maturity | Total Principal Balance of Mortgages Payable | Weighted Average Interest Rate |
|---------------------|-------------------------------|---------------------------|----------------------------------------------|--------------------------------|
| Remainder of 2020   | 131                           | -                         | 131                                          | 4.32%                          |
| 2021                | 368                           | 41,456                    | 41,824                                       | 3.07%                          |
| 2022 and thereafter | -                             | 11,150                    | 11,150                                       | 4.29%                          |
| Total               | 499                           | 52,606                    | 53,105                                       | 3.33%                          |

## Credit Facilities

At September 30, 2020, our Credit Facilities had a total maximum borrowing capacity of \$400.0 million. The following table summarizes the available borrowing capacity on these Credit Facilities:

| (\$000s)                                    | Maximum Capacity | Available Capacity | Utilized for Letters of Credit | Net Available Capacity | Borrowed | Net Available Borrowing Capacity | Net Financing Costs | Carrying Value | Maturity Date |
|---------------------------------------------|------------------|--------------------|--------------------------------|------------------------|----------|----------------------------------|---------------------|----------------|---------------|
| Secured credit facility <sup>(1)</sup>      | 300,000          | 300,000            | (9,609)                        | 290,391                | (84,000) | 206,391                          | (3,238)             | 80,762         | May 29, 2024  |
| Unsecured credit facility <sup>(2)(3)</sup> | 100,000          | 100,000            | -                              | 100,000                | -        | 100,000                          | -                   | -              | May 29, 2024  |
| Total Credit Facilities                     | 400,000          | 400,000            | (9,609)                        | 390,391                | (84,000) | 306,391                          | (3,238)             | 80,762         |               |

(1) Available capacity is determined based on a formula that considers the lending value of the properties included in the secured asset pool. The factors impacting the lending value formula include property valuations, the mortgageability amount determined on the basis of NOI for the previous four quarters, the secured collateral, and the occupancy rate of the property.

(2) Available capacity is determined by a minimum ratio of unencumbered property asset value to unsecured indebtedness of 1.3:1.

(3) An option to increase borrowing capacity by an additional \$50.0 million is available, subject to certain conditions.

The cost of our Credit Facilities is based on Chartwell's credit rating. At the current BBB(low) rating, amounts borrowed under the secured credit facility bear interest at the banks' prime rate ("Prime") plus 65 bps or BA plus 165 bps, and amounts borrowed under the unsecured credit facility bear interest at Prime plus 70 bps or BA plus 170 bps. Should Chartwell's credit rating be revised below BBB(low), amounts borrowed under the Credit Facilities would bear higher interest by an incremental 40 bps.

The Credit Facilities, which mature on May 29, 2024, include covenants generally applicable to such facilities, such as limitations on certain investments and hedging arrangements, overall leverage ratio, debt service coverage ratio, distributions payout ratio and, in the case of the unsecured credit facility, secured indebtedness ratio and unencumbered asset value ratio. Please refer to the "Financial Covenants" section of this MD&A for calculations of these covenants.

## Unsecured Term Loan

On December 10, 2019, we entered into a \$125.0 million unsecured term loan agreement with a Canadian chartered bank. The loan matures on May 31, 2024 and through an interest rate swap, the interest rate was fixed at 3.523%. On June 26, 2020, Chartwell entered into a revised swap agreement. The fixed interest rate was changed effective June 30, 2020 to 3.703% and a rate floor of zero percent was added to the swap agreement. The unsecured term loan is subject to covenants that are generally consistent with the covenants on our Credit Facilities.

The following table summarizes the unsecured term loan outstanding as at September 30, 2020:

| (\$000s)            | Outstanding Principal | Net Financing Costs | Carrying Value | Maturity Date |
|---------------------|-----------------------|---------------------|----------------|---------------|
| Unsecured term loan | 125,000               | (282)               | 124,718        | May 31, 2024  |

## Debentures

On June 9, 2017, we issued \$200.0 million of 3.786% Series A senior unsecured debentures (the “Series A Debentures”) due on December 11, 2023, with semi-annual interest payments due on June 11 and December 11 of each year commencing December 11, 2017. Debt finance costs of \$1.6 million were incurred and recorded against the principal owing.

On April 27, 2018, we issued \$150.0 million of 4.211% Series B senior unsecured debentures (the “Series B Debentures”) due on April 28, 2025, with semi-annual interest payments due on April 28 and October 28 of each year commencing October 28, 2018. Debt finance costs of \$1.1 million were incurred and recorded against the principal owing.

The following table summarizes the balance of our Debentures:

| (\$000s)                        | As at September 30, 2020 | As at December 31, 2019 |
|---------------------------------|--------------------------|-------------------------|
| Series A Debentures outstanding | 200,000                  | 200,000                 |
| Series B Debentures outstanding | 150,000                  | 150,000                 |
| Unamortized finance costs       | (1,416)                  | (1,706)                 |
| Carrying value                  | 348,584                  | 348,294                 |

## Credit Rating

As described in the Outlook section of this MD&A, on October 23, 2020, DBRS confirmed the BBB(low) rating of our Issuer Rating and the Senior Unsecured Debentures Rating changing the trend from stable to negative. (Details are available on their website at [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com), or [link here](#).)



## Financial Covenants

Our Credit Facilities and Debentures contain numerous financial covenants. Failure to comply with the covenants could result in a default, which, if not waived or cured, could result in adverse financial consequences. The following discussions provide the status of our various financial covenants related to our Credit Facilities and Debentures. All covenant calculations in this section are based on the definitions of various financial metrics as negotiated with the lenders and agents and as reflected in our Amended and Restated Credit Agreements for the Secured and Unsecured Facilities dated May 10, 2019 (together, the “Credit Agreements”), and in the trust indentures for the Debentures. These covenants are calculated in accordance with the respective agreement and may not be comparable to similar metrics used by other entities or to any GAAP measure.

### Credit Facilities

#### 1. Debt Service Coverage Ratio for Credit Facilities

We are required to maintain a minimum debt service coverage ratio of 1.40 on a rolling 12-month basis.

| (\$000s, except debt service coverage ratio)                                                  | 12 months<br>September 30, 2020 | 12 months<br>December 31, 2019 |
|-----------------------------------------------------------------------------------------------|---------------------------------|--------------------------------|
| Consolidated EBITDA for Credit Facilities <sup>(1)</sup>                                      | 279,036                         | 296,370                        |
| Consolidated interest expense for Credit Facilities <sup>(2)</sup>                            | 94,509                          | 90,008                         |
| Consolidated regularly-scheduled debt principal payments for Credit Facilities <sup>(3)</sup> | 76,672                          | 71,455                         |
| Consolidated debt service payments for Credit Facilities                                      | 171,181                         | 161,463                        |
| Debt service coverage ratio for Credit Facilities                                             | 1.63                            | 1.84                           |

- (1) Refer to the “Supporting Covenant Calculations – 1. Consolidated EBITDA for Credit Facilities and Debentures” section on page 38 of this MD&A for the calculation of consolidated EBITDA for Credit Facilities.
- (2) Refer to the “Supporting Covenant Calculations – 2. Consolidated Interest Expense for Credit Facilities and Debentures” section on page 38 of this MD&A for the calculation of consolidated interest expense for Credit Facilities.
- (3) Refer to the “Supporting Covenant Calculations – 3. Regularly-Scheduled Debt Principal Payments for Credit Facilities” section on page 39 of this MD&A for the calculation of consolidated regularly-scheduled debt principal payments for Credit Facilities.

#### 2. Total Leverage Ratio for Credit Facilities

We are required to maintain a total leverage ratio below 65%.

| (\$000s, except total leverage ratio)                                                 | As at September 30, 2020 | As at December 31, 2019 |
|---------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Consolidated indebtedness for Credit Facilities <sup>(1)</sup>                        | 2,642,173                | 2,522,196               |
| Adjusted consolidated gross book value of assets for Credit Facilities <sup>(2)</sup> | 4,951,313                | 4,836,884               |
| Total leverage ratio for Credit Facilities                                            | 53.4%                    | 52.1%                   |

- (1) Refer to the “Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures” section on page 39 of this MD&A for the calculation of consolidated indebtedness for Credit Facilities.
- (2) Refer to the “Supporting Covenant Calculations – 5. Adjusted Consolidated Gross Book Value of Assets for Credit Facilities and Aggregate Adjusted Assets for Debentures” section on page 40 of this MD&A for the calculation of adjusted consolidated gross book value of assets for Credit Facilities.

### 3. Adjusted Consolidated Unitholders' Equity Ratio for Credit Facilities

We are required to maintain an adjusted consolidated unitholders' equity of at least \$1,000 million, plus 75% of the net proceeds raised by further issuance of units after June 30, 2016.

At September 30, 2020, the minimum adjusted consolidated unitholders' equity requirement was \$1,194 million.

| (\$000s)                                                                                      | As at September 30, 2020 | As at December 31, 2019 |
|-----------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Unitholders' equity per Financial Statements                                                  | 752,004                  | 837,567                 |
| Adjustment for accumulated depreciation and amortization for Credit Facilities <sup>(1)</sup> | 1,158,618                | 1,074,265               |
| Class B Units                                                                                 | 15,457                   | 22,210                  |
| Deferred Trust Units ("DTUs")                                                                 | 11,994                   | 15,038                  |
| Adjusted consolidated unitholders' equity for Credit Facilities                               | 1,938,073                | 1,949,080               |

(1) Includes accumulated depreciation of PP&E and amortization of intangible assets for Equity-Accounted JVs of \$22.8 million at September 30, 2020 (\$20.2 million at December 31, 2019) and fully amortized assets of \$258.4 million at September 30, 2020 (\$236.3 million at December 31, 2019).

### 4. Payment of Cash Distributions for Credit Facilities

Our Credit Facilities require that our cash distributions do not exceed 100% of our AFFO for Credit Facilities.

| (\$000s, except percentage of AFFO)                                                         | 2020 YTD | 2019 YTD |
|---------------------------------------------------------------------------------------------|----------|----------|
| Distributions declared on Trust Units                                                       | 98,297   | 95,491   |
| Distributions on Class B Units                                                              | 709      | 722      |
| Distributions on DTUs                                                                       | 512      | 449      |
| Total distributions for Credit Facilities                                                   | 99,518   | 96,662   |
| Less:                                                                                       |          |          |
| Non-cash distributions settled by Distribution Reinvestment Program ("DRIP") <sup>(1)</sup> | 8,518    | 19,590   |
| Non-cash distributions applied to Executive Unit Purchase Plan ("EUPP")                     | 763      | 692      |
| Non-cash distributions applied to DTUs                                                      | 512      | 449      |
| Cash distributions for Credit Facilities                                                    | 89,725   | 75,931   |
| AFFO for Credit Facilities <sup>(2)</sup>                                                   | 117,452  | 137,906  |
| Cash distributions as a percentage of AFFO for Credit Facilities                            | 76.4%    | 55.1%    |

(1) DRIP has been temporarily suspended, effective with the April 30, 2020 distribution payable on May 15, 2020.

(2) Refer to the "Supporting Covenant Calculations – 6. Adjusted Funds from Operations for Credit Facilities" section on page 40 of this MD&A for the calculation of AFFO for Credit Facilities.

## 5. Investment Restrictions for Credit Facilities

Our Credit Agreements include certain restrictions on investments in certain joint ventures, loans receivable and properties held for development as follows:

| (\$000s)                                                                                                        | Threshold as of<br>September 30, 2020 | As at September<br>30, 2020 | As at December<br>31, 2019 |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------|----------------------------|
| Non-qualifying joint ventures and investments <sup>(1)</sup>                                                    | 247,566                               | 1,500                       | -                          |
| Loans receivable <sup>(2)</sup>                                                                                 | 742,697                               | 11,978                      | 18,731                     |
| Investments in property held for development/construction<br>as defined in the Credit Facilities <sup>(2)</sup> | 742,697                               | 131,201                     | 174,841                    |
| Combined <sup>(3)</sup>                                                                                         | 1,237,828                             | 144,679                     | 193,572                    |

(1) Limit of 5% of adjusted consolidated gross book value of assets for Credit Facilities.

(2) Limit of 15% of adjusted consolidated gross book value of assets for Credit Facilities.

(3) Limit of 25% of adjusted consolidated gross book value of assets for Credit Facilities.

The following financial covenants are only applicable to the unsecured credit facility:

## 6. Secured Indebtedness Ratio for the Unsecured Credit Facility

We are required to maintain a secured indebtedness to adjusted consolidated gross book value of assets ratio of below 55%.

| (\$000s, except secured indebtedness ratio)                                              | As at September 30, 2020 | As at December 31, 2019 |
|------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Secured indebtedness for the unsecured credit facility <sup>(1)</sup>                    | 2,142,804                | 2,023,936               |
| Adjusted consolidated gross book value of assets for<br>Credit Facilities <sup>(2)</sup> | 4,951,313                | 4,836,884               |
| Secured indebtedness ratio for the unsecured credit<br>facility                          | 43.3%                    | 41.8%                   |

(1) Refer to the "Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures" section on page 39 of this MD&A for the calculation of secured indebtedness for Credit Facilities.

(2) Refer to the "Supporting Covenant Calculations – 5. Adjusted Consolidated Gross Book Value of Assets for Credit Facilities and Aggregate Adjusted Assets for Debentures" section on page 40 of this MD&A for the calculation of adjusted consolidated gross book value of assets for Credit Facilities.

## 7. Unencumbered Property Asset Ratio for the Unsecured Credit Facility

We are required to maintain the unencumbered property asset value at more than 1.3 times our consolidated unsecured indebtedness.

| (\$000s, except unencumbered property asset ratio)                                    | As at September 30, 2020 | As at December 31, 2019 |
|---------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Unencumbered property asset value for the<br>unsecured credit facility <sup>(1)</sup> | 928,800                  | 902,650                 |
| Unsecured indebtedness for the unsecured credit<br>facility <sup>(2)</sup>            | 499,369                  | 498,260                 |
| Unencumbered property asset ratio for the unsecured<br>credit facility                | 1.9                      | 1.8                     |

(1) Includes 37 properties valued at \$928.8 million as of September 30, 2020 (38 properties valued at \$902.7 million as of December 31, 2019). The value is based on third-party appraisals that are dated no longer than two years from the applicable determination date.

(2) Refer to the "Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures" section on page 39 of this MD&A for the calculation of unsecured indebtedness for the Credit Facilities.

## Debentures

### 1. Consolidated EBITDA to Consolidated Interest Expense Ratio for Debentures (“Interest Coverage Ratio for Debentures”)

We are required at all times to maintain an Interest Coverage Ratio for Debentures of not less than 1.65 on a proforma basis and calculated based on the definitions for the Debentures.

| (\$000s, except Interest Coverage Ratio)                    | 12 months<br>September 30, 2020 | 12 months<br>December 31, 2019 |
|-------------------------------------------------------------|---------------------------------|--------------------------------|
| Consolidated EBITDA for Debentures <sup>(1)</sup>           | 281,105                         | 297,677                        |
| Consolidated interest expense for Debentures <sup>(2)</sup> | 93,314                          | 95,530                         |
| Interest Coverage Ratio for Debentures                      | 3.0                             | 3.1                            |

- (1) Refer to the “Supporting Covenant Calculations – 1. Consolidated EBITDA for Credit Facilities and Debentures” section on page 38 of this MD&A for the calculation of consolidated EBITDA for Debentures.
- (2) Refer to the “Supporting Covenant Calculations – 2. Consolidated Interest Expense for Credit Facilities and Debentures” section on page 38 of this MD&A for the calculation of consolidated interest expense for Debentures.

### 2. Indebtedness Percentage for Debentures

We are required to maintain a ratio of consolidated indebtedness to aggregate adjusted assets of less than or equal to 65%.

| (\$000s, except indebtedness percentage)                | September 30, 2020 | December 31, 2019 |
|---------------------------------------------------------|--------------------|-------------------|
| Consolidated indebtedness for Debentures <sup>(1)</sup> | 2,571,644          | 2,483,937         |
| Aggregate adjusted assets for Debentures <sup>(2)</sup> | 4,892,295          | 4,809,030         |
| Indebtedness percentage for Debentures                  | 52.6%              | 51.7%             |

- (1) Refer to the “Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures” section on page 39 of this MD&A for the calculation of consolidated indebtedness for Debentures.
- (2) Refer to the “Supporting Covenant Calculations – 5. Adjusted Consolidated Gross Book Value of Assets for Credit Facilities and Aggregate Adjusted Assets for Debentures” section on page 40 of this MD&A for the calculation of aggregate adjusted assets for Debentures.

### 3. Coverage Ratio for Debentures

We are required to maintain a ratio of unencumbered aggregate adjusted assets to the aggregate principal amount of outstanding consolidated unsecured indebtedness of not less than 1.3 on a proforma basis giving effect to the transactions completed to the date of this MD&A and calculated based on the definition in the Supplemental Trust Indentures.

| (\$000s, except ratio)                                               | September 30, 2020 | December 31, 2019 |
|----------------------------------------------------------------------|--------------------|-------------------|
| Unencumbered aggregate adjusted assets for Debentures <sup>(1)</sup> | 928,800            | 902,650           |
| Unsecured indebtedness for Debentures <sup>(2)</sup>                 | 487,858            | 487,855           |
| Coverage ratio for Debentures                                        | 1.9                | 1.9               |

- (1) Includes 37 properties valued at \$928.8 million as of September 30, 2020 (38 properties valued at \$902.7 million as of December 31, 2019). The value is based on third-party appraisals that are dated no longer than two years from the applicable determination date.
- (2) Refer to the “Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures” section on page 39 of this MD&A for the calculation of unsecured indebtedness for the Debentures.

## Supporting Covenant Calculations

### 1. Consolidated EBITDA for Credit Facilities and Debentures

The following table provides the calculation of consolidated EBITDA for the Credit Facilities and Debentures.

| (\$000s)                                                                                                     | 12 months<br>December 31, 2019 | Subtract:<br>2019 YTD | Add:<br>2020 YTD | Rolling 12 months<br>September 30, 2020 |
|--------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------|------------------|-----------------------------------------|
| Net income/(loss)                                                                                            | 1,067                          | 12,552                | 2,697            | (8,788)                                 |
| Remeasurement gain                                                                                           | (37,859)                       |                       |                  | 1,313                                   |
| Gain on disposal of assets <sup>(1)</sup>                                                                    | (6,083)                        | (5,059)               | (2,072)          | (3,096)                                 |
| Transaction costs                                                                                            | 1,816                          | 1,273                 | 690              | 1,233                                   |
| Impairment losses                                                                                            | 46,974                         | 19,500                | 3,200            | 30,674                                  |
| Non-cash change in fair value of<br>financial instruments and foreign<br>exchange loss/(gain) <sup>(1)</sup> | 3,391                          | 6,568                 | (7,799)          | (10,976)                                |
| Consolidated net income/(loss) for<br>Credit Facilities                                                      | 9,306                          | (4,338)               | (3,284)          | 10,360                                  |
| Consolidated finance costs <sup>(1)</sup>                                                                    | 87,151                         | 64,875                | 71,638           | 93,914                                  |
| Consolidated depreciation of PP&E<br>and amortization of intangible<br>assets <sup>(1)</sup>                 | 183,387                        | 135,526               | 140,124          | 187,985                                 |
| Consolidated income tax<br>expense/(benefit)                                                                 | 10,209                         | 19,098                | (10,917)         | (19,806)                                |
| Principal portion of capital funding                                                                         | 6,317                          | 4,704                 | 4,970            | 6,583                                   |
| Consolidated EBITDA for Credit<br>Facilities                                                                 | 296,370                        | 219,865               | 202,531          | 279,036                                 |
| Proforma adjustments <sup>(2)</sup>                                                                          | 1,307                          |                       |                  | 2,069                                   |
| Consolidated EBITDA for Debentures                                                                           | 297,677                        |                       |                  | 281,105                                 |

(1) Non-GAAP; includes Chartwell's proportionate share of Equity-Accounted JVs.

(2) Adjusted to reflect a full-year impact of acquisitions and dispositions completed during the reporting period, on a proforma basis.

### 2. Consolidated Interest Expense for Credit Facilities and Debentures

The following table provides the calculation of consolidated interest expense for Credit Facilities and Debentures.

| (\$000s)                                               | 12 months<br>December 31,<br>2019 | Subtract:<br>2019 YTD | Add:<br>2020 YTD | Rolling 12 months<br>September 30,<br>2020 |
|--------------------------------------------------------|-----------------------------------|-----------------------|------------------|--------------------------------------------|
| Interest on mortgages <sup>(1)</sup>                   | 73,232                            | 54,718                | 54,838           | 73,352                                     |
| Interest on Debentures                                 | 13,888                            | 10,387                | 10,388           | 13,889                                     |
| Interest on Credit Facilities                          | 2,711                             | 1,992                 | 3,049            | 3,768                                      |
| Interest on unsecured term loan                        | 177                               | -                     | 3,323            | 3,500                                      |
| Consolidated interest expense for<br>Credit Facilities | 90,008                            | 67,097                | 71,598           | 94,509                                     |
| Proforma adjustments <sup>(2)</sup>                    | 5,522                             |                       |                  | (1,195)                                    |
| Consolidated interest expense for<br>Debentures        | 95,530                            |                       |                  | 93,314                                     |

(1) Non-GAAP; includes Chartwell's proportionate share of Equity-Accounted JVs.

(2) Adjusted to reflect a full-year impact of acquisitions, dispositions and financings completed during the reporting period, on a proforma basis.

### 3. Regularly Scheduled Debt Principal Payments for Credit Facilities

The following table summarizes regularly scheduled principal debt payments for the Credit Facilities.

| (\$000s)                                                                  | 12 months<br>December 31, 2019 | Subtract:<br>2019 YTD | Add:<br>2020 YTD | Rolling 12 months<br>September 30,<br>2020 |
|---------------------------------------------------------------------------|--------------------------------|-----------------------|------------------|--------------------------------------------|
| Regularly scheduled debt principal payments per Financial Statements      | 70,963                         | 52,422                | 57,783           | 76,324                                     |
| Regularly scheduled debt principal payments for equity-accounted entities | 492                            | 399                   | 255              | 348                                        |
| Regularly scheduled debt principal payments for Credit Facilities         | 71,455                         | 52,821                | 58,038           | 76,672                                     |

### 4. Consolidated Indebtedness for Credit Facilities and Debentures

The following table provides the calculation of consolidated indebtedness for Credit Facilities and Debentures.

| (\$000s)                                                               | September 30, 2020 | December 31, 2019 |
|------------------------------------------------------------------------|--------------------|-------------------|
| Principal balance of mortgages payable                                 | 2,005,699          | 1,975,089         |
| Principal balance of mortgages payable related to Equity-Accounted JVs | 53,105             | 48,847            |
| Outstanding amount on the secured credit facility                      | 84,000             | -                 |
| Secured indebtedness for the unsecured credit facility                 | 2,142,804          | 2,023,936         |
| Principal balance of Debentures                                        | 350,000            | 350,000           |
| Unsecured term loan                                                    | 125,000            | 125,000           |
| Capital lease obligations                                              | 12,858             | 12,855            |
| Unsecured indebtedness for Debentures                                  | 487,858            | 487,855           |
| Outstanding letters of credit                                          | 9,609              | 8,219             |
| Third-party guarantees                                                 | 1,902              | 2,186             |
| Unsecured indebtedness for Credit Facilities                           | 499,369            | 498,260           |
| Consolidated indebtedness for Credit Facilities                        | 2,642,173          | 2,522,196         |
| Add (Subtract):                                                        |                    |                   |
| Outstanding letters of credit                                          | (9,609)            | (8,219)           |
| Third-party guarantees                                                 | (1,902)            | (2,186)           |
| Cash and cash equivalents                                              | (51,387)           | (22,890)          |
| Cash and cash equivalents of Equity-Accounted JVs                      | (7,631)            | (4,964)           |
| Consolidated indebtedness for Debentures                               | 2,571,644          | 2,483,937         |

## 5. Adjusted Consolidated Gross Book Value of Assets for Credit Facilities and Aggregate Adjusted Assets for Debentures

The following table provides the calculations of both the adjusted consolidated gross book value of assets for Credit Facilities and the aggregate adjusted assets for Debentures.

| (\$000s)                                                                                      | September 30, 2020 | December 31, 2019 |
|-----------------------------------------------------------------------------------------------|--------------------|-------------------|
| Book value of assets <sup>(1)</sup>                                                           | 3,580,592          | 3,541,225         |
| Gross book value adjustment on IFRS transition                                                | 212,103            | 221,394           |
| Adjustment for accumulated depreciation and amortization for Credit Facilities <sup>(2)</sup> | 1,158,618          | 1,074,265         |
| Adjusted consolidated gross book value of assets for Credit Facilities                        | 4,951,313          | 4,836,884         |
| Add (Subtract):                                                                               |                    |                   |
| Cash and cash equivalents                                                                     | (51,387)           | (22,890)          |
| Cash and cash equivalents of Equity-Accounted JVs                                             | (7,631)            | (4,964)           |
| Aggregate adjusted assets for Debentures                                                      | 4,892,295          | 4,809,030         |

(1) Non-GAAP; includes Chartwell's proportionate share of Equity-Accounted JVs.

(2) Includes accumulated depreciation of PP&E and amortization of intangible assets for Equity-Accounted JVs of \$22.8 million at September 30, 2020 (\$20.2 million at December 31, 2019) and fully amortized assets of \$258.4 million at September 30, 2020 (\$236.3 million at December 31, 2019).

## 6. Adjusted Funds from Operations for Credit Facilities

AFFO for Credit Facilities is calculated based on the definition used in our Credit Agreements and is likely not comparable to similar measures used by other entities. In accordance with the Credit Agreements, AFFO is calculated by adding or subtracting certain items measured to or from FFO as follows where, as required by the agreement, all such items are adjusted to account for our Equity-Accounted JVs using the proportionate consolidation method:

**Principal portion of capital funding receivable:** This item represents the principal portion of the long-term cash flow stream provided in the respective period by the MLTC to communities which meet certain design criteria.

**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 finance costs and fair value adjustments on assumed mortgages:** Adjustments for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

**Finance cost reserve:** This reserve represents normalized costs of refinancing our mortgages, estimated at 60 basis points, applied to the debt balances outstanding at the end of the reporting period and 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 following table provides the calculation of AFFO for Credit Facilities for the purposes of the covenant calculations in the Credit Agreements:

| (\$000s)                                                                                     | 2020 YTD | 2019 YTD |
|----------------------------------------------------------------------------------------------|----------|----------|
| FFO <sup>(1)</sup>                                                                           | 122,366  | 147,846  |
| <i>Add (Subtract) amounts as defined in the Credit Agreements:</i>                           |          |          |
| Principal portion of capital funding receivable                                              | 4,970    | 4,704    |
| Income guarantees <sup>(2)</sup>                                                             | 5,307    | 867      |
| Amortization of finance costs and fair value adjustments on assumed mortgages <sup>(3)</sup> | 1,027    | 314      |
| Finance cost reserve                                                                         | (1,369)  | (1,300)  |
| AFFO for Credit Facilities before capital maintenance reserve                                | 132,301  | 152,431  |
| Capital maintenance reserve - 2% of property revenue                                         | (14,849) | (14,525) |
| AFFO for Credit Facilities                                                                   | 117,452  | 137,906  |

(1) Non-GAAP; refer to the "Additional Information on Non-GAAP Financial Measures – Funds from Operations" section on page 47 of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Non-GAAP; refer to the preamble to this table. Includes Chartwell's proportionate share of Equity-Accounted JVs.

(3) Non-GAAP; 2020 YTD excludes \$0.9 million of amortization of finance costs incurred in respect of renewal of our Credit Facilities and Debentures (2019 YTD - \$0.9 million).

## Total Equity

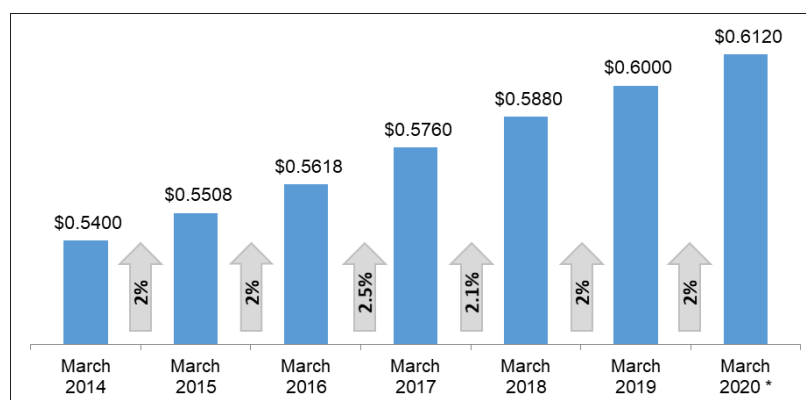
The following table summarizes changes in the number of outstanding units during 2020 YTD:

|                                                       | Trust Units | Trust Units under EUPP | Class B Units | DTUs      | Total Equity <sup>(1)</sup> |
|-------------------------------------------------------|-------------|------------------------|---------------|-----------|-----------------------------|
| Balance December 31, 2019                             | 213,055,028 | 1,500,945              | 1,597,860     | 1,081,867 | 217,235,700                 |
| Trust Units issued pursuant to DRIP                   | 684,812     | -                      | -             | -         | 684,812                     |
| Trust Units issued under EUPP                         | -           | 266,685                | -             | -         | 266,685                     |
| Trust Units released on settlement of EUPP receivable | 17,645      | (17,645)               | -             | -         | -                           |
| Exchange of Class B Units into Trust Units            | 67,500      | -                      | (67,500)      | -         | -                           |
| DTUs issued                                           | -           | -                      | -             | 56,119    | 56,119                      |
| Distributions on DTUs                                 | -           | -                      | -             | 49,525    | 49,525                      |
| Balance September 30, 2020                            | 213,824,985 | 1,749,985              | 1,530,360     | 1,187,511 | 218,292,841                 |

(1) Non-GAAP; includes Class B Units and DTUs which are classified as liabilities in our Financial Statements.

## Distributions

The following chart summarizes increases in our annualized per unit distributions since 2014:



\* Effective for the March 31, 2020 distribution paid on April 15, 2020.

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.

On February 27, 2020, the Trustees approved a 2.0% increase in our monthly distributions from \$0.600 annualized per unit to \$0.612 annualized per unit effective for the March 31, 2020 distribution paid on April 15, 2020.

In response to market disruptions caused by the pandemic, on March 16, 2020, we announced a temporary suspension of DRIP, effective with the April 2020 distributions paid on May 15, 2020. The DRIP will remain suspended and all distributions will be paid in cash until further notice. If and when we resume the DRIP program, investors who had previously registered in our DRIP and who remain continuous unitholders will be automatically re-enrolled.

The following table summarizes distributions declared on Trust Units in Q3 2020, 2020 YTD, 2019 and 2018 in relation to cash flows from operating activities and net income/(loss):

| (\$000s)                                                                                         | Q3 2020  | 2020 YTD | 2019      | 2018      |
|--------------------------------------------------------------------------------------------------|----------|----------|-----------|-----------|
| Cash flows from operating activities                                                             | 57,738   | 124,238  | 196,548   | 215,486   |
| Net income/(loss)                                                                                | (6,766)  | 2,697    | 1,067     | 18,519    |
| Distributions declared on Trust Units                                                            | 32,937   | 98,297   | 127,617   | 124,006   |
| Excess/(deficit) cash flows from operating activities over distributions declared on Trust Units | 24,801   | 25,941   | 68,931    | 91,480    |
| Deficit of net income/(loss) over distributions declared on Trust Units                          | (39,703) | (95,600) | (126,550) | (105,487) |

The Trustees do not use net income/(loss) as determined in accordance with GAAP as the basis for establishing the level of distributions to unitholders as it includes items that we do not believe are informative or reflective of the factors described above that are used in and considered relevant in the setting of distribution rates. These items that are included in net income/(loss) and are not used or considered relevant include, among other items, distributions on Class B Units which are recorded as interest expense, non-cash depreciation and amortization, changes in fair values of certain liabilities and impairment losses. We believe that, with the appropriate level of capital reinvestment in our properties, their income-generating potential does not generally diminish over time.

The pandemic introduced significant uncertainties as discussed in the “Forward-Looking Information and COVID-19 Risk” section on page 3 of this MD&A. The Trustees are monitoring the impact that this pandemic is having on Chartwell’s business and will exercise their discretion with respect to setting distribution rates accordingly. At this time, it is the Trustees’ intention to maintain the current level of distributions.

## Balance Sheet Analysis

The following table summarizes the significant changes in assets, liabilities and equity for September 30, 2020 compared to December 31, 2019.

|                   | Increase (Decrease)<br>(\$millions) | Explanation                                                                                                                                                                                                                                                                                                                                  |
|-------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Total assets      | 36.4                                | Total assets increased primarily due to increases in trade and other receivables, cash, PP&E net of transfers to assets held for sale, intangible assets, and other assets. The increase in PP&E net of transfers to assets held for sale was primarily due to acquisitions, developments and capital investments in our property portfolio. |
| Total liabilities | 122.0                               | Total liabilities increased primarily due to debt used to finance investing activities.                                                                                                                                                                                                                                                      |
| Equity            | (85.6)                              | The decrease in equity is primarily due to distributions, partially offset by net income for the period.                                                                                                                                                                                                                                     |

## Capital Investments

In normal circumstances, we regularly reinvest capital in our owned property portfolio with the goal of growing our property NOI and protecting and maintaining our properties. Due to strict restrictions allowing only essential visitors in our residences, beginning in late March 2020, only emergency capital works were undertaken. With the easing of restrictions in all provinces, we have now begun to allow contractors into our buildings with strict requirements on infection control practices.

The following table summarizes our capital investments in 2020 YTD and 2019 YTD:

|                                        | 2020 YTD                                                 |                                                          |        | 2019 YTD                                                 |                                                          |         |
|----------------------------------------|----------------------------------------------------------|----------------------------------------------------------|--------|----------------------------------------------------------|----------------------------------------------------------|---------|
|                                        | Properties Owned prior to January 1, 2016 <sup>(1)</sup> | Properties Acquired since January 1, 2016 <sup>(2)</sup> | Total  | Properties Owned prior to January 1, 2016 <sup>(3)</sup> | Properties Acquired since January 1, 2016 <sup>(4)</sup> | Total   |
| (\$000s)                               |                                                          |                                                          |        |                                                          |                                                          |         |
| Building improvements                  | 13,474                                                   | 6,380                                                    | 19,854 | 25,276                                                   | 3,208                                                    | 28,484  |
| Mechanical and electrical ("M&E")      | 6,724                                                    | 1,136                                                    | 7,860  | 9,216                                                    | 966                                                      | 10,182  |
| Suite improvements and upgrades        | 7,021                                                    | 963                                                      | 7,984  | 13,172                                                   | 1,746                                                    | 14,918  |
| Interior improvements and upgrades     | 1,980                                                    | 261                                                      | 2,241  | 3,715                                                    | 492                                                      | 4,207   |
| Furniture, fixtures and equipment      | 4,574                                                    | 1,114                                                    | 5,688  | 5,734                                                    | 1,339                                                    | 7,073   |
| Communications and information systems | 244                                                      | 31                                                       | 275    | 432                                                      | 95                                                       | 527     |
| Properties under development           | 34,017                                                   | 9,885                                                    | 43,902 | 57,545                                                   | 7,846                                                    | 65,391  |
| Chartwell Hub <sup>(5)</sup>           |                                                          |                                                          | 34,797 |                                                          |                                                          | 35,726  |
|                                        |                                                          |                                                          | 6,822  |                                                          |                                                          | 29,441  |
| Total capital investments              |                                                          |                                                          | 85,521 |                                                          |                                                          | 130,558 |

(1) Includes 164 properties (19,286 suites at Chartwell's share of ownership).

(2) Includes 23 properties (3,444 suites at Chartwell's share of ownership).

(3) Includes 166 properties (19,399 suites at Chartwell's share of ownership).

(4) Includes 21 properties (2,979 suites at Chartwell's share of ownership).

(5) Cost incurred for the development of Chartwell Hub. The cumulative cost as at September 30, 2020 is \$89.3 million; the total expected development cost is \$90.6 million. The construction was substantially completed in January 2020.

The following table is supplemental information and summarizes capital investments in our Equity-Accounted JVs in 2020 YTD and 2019 YTD not included in the table above:

|                                             | 2020 YTD                                  |                                           |       | 2019 YTD                                  |                                           |        |
|---------------------------------------------|-------------------------------------------|-------------------------------------------|-------|-------------------------------------------|-------------------------------------------|--------|
|                                             | Properties Owned prior to January 1, 2016 | Properties Acquired since January 1, 2016 | Total | Properties Owned prior to January 1, 2016 | Properties Acquired since January 1, 2016 | Total  |
| (\$000s)                                    |                                           |                                           |       |                                           |                                           |        |
| Capital investments in Equity-Accounted JVs | 873                                       | 751                                       | 1,624 | 1,518                                     | 8,622                                     | 10,140 |

### ***Building Improvements***

This category primarily includes investments in facades, balconies, garages, elevators and parking lots. In addition to preserving the existing revenue generating capacity and value of the properties, these investments support occupancy growth due to improved physical appearance of the property, growth in ancillary property revenues (eg. parking rates) and operating cost savings (i.e. energy efficient windows and doors, improved building insulation).

In 2020 YTD, we completed 68 major building improvement projects valued over \$50,000 each, totalling \$14.3 million (2019 YTD – 114 projects totalling \$25.3 million). In addition, included in this category are acquisitions of two condominium suites at one of our properties in British Columbia totalling \$0.9 million (2019 YTD – six condominium suites for \$2.3 million).

### ***Mechanical and Electrical***

This category primarily includes investments in heating, air conditioning and ventilation systems, fire safety systems, including sprinklers and lighting systems. These investments are generally expected to result in energy cost savings and lower equipment maintenance costs over time.

In 2020 YTD, we completed 56 major M&E projects valued over \$50,000 each, totalling \$5.4 million (2019 YTD – 62 projects totalling \$7.4 million).

### ***Suite Improvements and Upgrades***

This category includes capital investments in resident suites. Over the past four years we have developed a program of strategic capital allocation to resident suite upgrades. These discretionary investments are made to improve the competitive position of our properties in the market and to allow for higher rental rate increases on suite turnover. In most cases, in addition to regular painting, resident suite upgrades include flooring upgrades and often full renovations of bathrooms and kitchens.

In 2020 YTD, we made investments in strategic suite upgrade programs in 52 properties (2019 YTD – 79 properties).

### ***Interior Improvements and Upgrades***

This category includes investments in common areas of our properties that are made primarily to improve their marketability. This investment includes upgrades to property resident amenity areas, such as hallways, dining rooms, lounges, theatres, etc.

In 2020 YTD, we invested in strategic common area upgrade programs in 14 properties (2019 YTD – 50 properties).

## ***Furniture, Fixtures and Equipment***

This category primarily includes investments in resident area and model suite furnishings and equipment, including upgrades to commercial kitchens and investments in resident transportation programs. These investments are primarily made to improve competitiveness of our properties and to provide enhanced services to our residents.

## ***Communication and Information Services***

This category includes investments in telecommunication systems, including emergency call systems and computer hardware.

# **Commitments and Contingencies**

## **Contractual Obligations and Guarantees**

Details of our contractual obligations and guarantees are outlined in our 2019 MD&A. There were no significant changes in our contractual obligations and guarantees in 2020 YTD which are outside the ordinary course of business.

## **Litigation and Claims**

Chartwell Retirement Residences or its subsidiaries have been named in three proposed class action lawsuits related to the pandemic as detailed below, none of which has been certified. Chartwell's insurer has assigned defence counsel and will be responding to the claims in due course through the appropriate court process.

- In May 2020, Chartwell became aware of a statement of claim in respect of a proposed class action alleging, among other things, negligence, breach of contract and breach of fiduciary duty in respect of Chartwell's response to the pandemic. The claim is brought on behalf of all residents who lived in Ontario homes owned, operated and/or managed by Chartwell during the pandemic as well as the family members of those residents. With the exception of \$15 million in punitive damages, the amount of damages being sought is not specified in the claim.
- In July 2020, Chartwell became aware of a second statement of claim in respect of a proposed class action alleging, among other things negligence, breach of contract and breach of fiduciary duty in respect of Chartwell's response to the pandemic at Chartwell Ballycliffe Long Term Care Residence. The claim is brought on behalf of all residents who lived at Ballycliffe during the pandemic, as well as the family members of those residents and seeks damages in the amount of \$30 million.
- In August 2020, Chartwell became aware of a statement of claim in respect of a proposed class action brought on behalf of residents of 96 Ontario long term care homes, six of which are owned or operated by Chartwell, alleging, among other things, negligence, breach of fiduciary duty and breaches of section 7 of the Charter of Rights and Freedoms. The claim is a joint claim against the various owners and operators of the 98 homes and seeks damages in the aggregate amount of \$600 million. In September 2020, the statement of claim was amended to add the Government of Ontario as a defendant.

On October 20, 2020, the Ontario government introduced the Supporting Ontario's Recovery Act, 2020 (Bill 218), that if passed, will provide liability protection for workers, volunteers and organizations that make an honest effort to follow public health guidelines and laws relating to exposure to the pandemic. If passed, current proceedings will be barred and dismissed without costs if they allege injury by COVID if the defendant had made good faith efforts and did not act with gross negligence.

## Summary of Select Financial Information

### Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

| (\$000s, except per unit amounts)                                                | 2020      |           |           |           | 2019      |           |           | 2018      |
|----------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                                                                  | Q3        | Q2        | Q1        | Q4        | Q3        | Q2        | Q1        | Q4        |
| Revenues                                                                         | 233,290   | 230,653   | 232,955   | 234,915   | 229,610   | 227,438   | 223,349   | 225,828   |
| Direct property operating expenses                                               | (160,482) | (154,917) | (150,719) | (152,837) | (146,460) | (146,555) | (144,164) | (147,714) |
| Depreciation and amortization                                                    | (43,660)  | (45,347)  | (48,250)  | (46,962)  | (42,027)  | (46,259)  | (45,274)  | (45,124)  |
| Share of net income/(loss) from joint ventures                                   | (1,527)   | (588)     | (1,198)   | (45)      | 1,797     | 309       | 392       | (53)      |
| G&A expenses                                                                     | (9,719)   | (12,374)  | (13,128)  | (8,746)   | (9,194)   | (12,459)  | (12,749)  | (9,348)   |
| Other income/(expense)                                                           | (2,928)   | 4,395     | (2,687)   | (27,965)  | (17,046)  | 2,155     | 38,893    | (1,230)   |
| Finance costs                                                                    | (23,409)  | (23,635)  | (23,147)  | (21,770)  | (21,633)  | (21,597)  | (20,526)  | (19,749)  |
| Changes in fair value of financial instruments and foreign exchange gain/ (loss) | (617)     | (2,075)   | 10,894    | 3,036     | 2,774     | (2,976)   | (6,148)   | 3,537     |
| Current income tax benefit/(expense)                                             | -         | -         | -         | -         | -         | -         | -         | (19)      |
| Deferred income tax benefit/(expense)                                            | 2,286     | 1,957     | 6,674     | 8,889     | 1,363     | (1,639)   | (18,822)  | (19,226)  |
| Net income/(loss) for the period                                                 | (6,766)   | (1,931)   | 11,394    | (11,485)  | (816)     | (1,583)   | 14,951    | (13,098)  |
| FFO <sup>(1)</sup>                                                               | 37,997    | 39,043    | 45,325    | 51,883    | 53,657    | 47,106    | 47,083    | 48,513    |
| FFOPU <sup>(1)</sup>                                                             | 0.17      | 0.18      | 0.21      | 0.24      | 0.25      | 0.22      | 0.22      | 0.23      |
| IFFO <sup>(1)</sup>                                                              | 40,965    | 41,910    | 48,783    | 53,800    | 56,136    | 49,670    | 49,358    | 50,441    |
| IFFOPU <sup>(1)</sup>                                                            | 0.19      | 0.19      | 0.22      | 0.25      | 0.26      | 0.23      | 0.23      | 0.23      |

(1) Non-GAAP; refer to the "Additional Information on Non-GAAP Financial Measures" section on page 47 of this MD&A.

Our results for the past eight quarters have primarily been affected by:

- developments, acquisitions and dispositions as described in the "Significant Events" section on page 10 of this MD&A and in our 2019 MD&A
- changes in fair value of financial instruments and foreign exchange gains and losses
- impairment losses
- remeasurement gains, and
- deferred income taxes.

In addition, the pandemic has affected our results for Q1 2020, Q2 2020 and Q3 2020.

Seasonal factors have a limited effect on our quarterly results as there is not a predictable pattern as to the effect of such factors. Seasonal factors include outbreaks and weather patterns.

## Additional Information on Non-GAAP Financial Measures

As described in the relevant sections of this MD&A, where a Non-GAAP Financial Measure is discussed for the first time, we have described why we believe it is useful to investors and how management uses the Non-GAAP Financial Measure. Non-GAAP Financial Measures do not have any standardized meaning prescribed by GAAP and therefore, are unlikely to be comparable to similar measures used by other issuers. The following provides detailed definitions and reconciliations to the most closely comparable GAAP measure for any Non-GAAP Financial Measure that has not been provided elsewhere in this MD&A. We present FFO substantially consistent with the definition adopted by REALPAC.

### Funds from Operations and Internal Funds from Operations

#### **FFO**

According to the REALPAC Guidance, FFO is defined as follows:

Profit or loss per GAAP 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.
- D. Amortization of tenant/customer relationship intangibles or other intangibles arising from a business combination.
- E. Gains or 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. Negative goodwill or goodwill impairment.
- O. Effects of puttable instruments classified as financial liabilities.
- P. Results of discontinued operations.
- Q. Adjustments for equity-accounted entities.
- R. Incremental leasing costs.
- S. Property taxes accounted for under IFRIC 21.
- T. Operational revenue and expenses from Right of Use assets.
- U. Non-controlling interests.

## IFFO

IFFO is a Non-GAAP Financial Measure used to evaluate management performance and does not have a standardized meaning prescribed by IFRS; therefore, it is not comparable to similar measures presented by other income trusts or other companies. IFFO should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. Chartwell calculates IFFO by adding or subtracting the following items to or from its FFO: (a) Lease-up-Losses and Imputed Cost of Debt on development properties; (b) income guarantees due from vendors of certain acquired properties; and (c) current income tax. These adjustments to FFO are made to ensure management is not incented to make short-term decisions for Chartwell by not developing new properties or acquiring properties with long-term value creation potential.

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

| (\$000s, except per unit amounts)                                                                                                                                          | Q3 2020 | Q3 2019 | Change   | 2020 YTD | 2019 YTD | Change   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|----------|----------|----------|----------|
| Net income/(loss)                                                                                                                                                          | (6,766) | (816)   | (5,950)  | 2,697    | 12,552   | (9,855)  |
| <i>Add (Subtract):</i>                                                                                                                                                     |         |         |          |          |          |          |
| B Depreciation of PP&E                                                                                                                                                     | 41,763  | 41,579  | 184      | 132,999  | 132,161  | 838      |
| D Amortization of limited life intangible assets                                                                                                                           | 1,897   | 448     | 1,449    | 4,258    | 1,399    | 2,859    |
| B Depreciation of PP&E and amortization of intangible assets used for administrative purposes included in depreciation of PP&E and amortization of intangible assets above | (1,503) | (1,265) | (238)    | (4,267)  | (3,162)  | (1,105)  |
| E Remeasurement gain                                                                                                                                                       | -       | -       | -        | -        | (39,172) | 39,172   |
| E Loss/(gain) on disposal of assets                                                                                                                                        | 3,101   | (2,613) | 5,714    | (2,071)  | (5,057)  | 2,986    |
| J Transaction costs arising on acquisitions and dispositions                                                                                                               | 99      | 310     | (211)    | 690      | 1,273    | (583)    |
| H Impairment losses                                                                                                                                                        | -       | 19,500  | (19,500) | 3,200    | 19,500   | (16,300) |
| G Deferred income tax                                                                                                                                                      | (2,286) | (1,363) | (923)    | (10,917) | 19,098   | (30,015) |
| O Distributions on Class B Units recorded as interest expense                                                                                                              | 234     | 240     | (6)      | 709      | 722      | (13)     |
| M Changes in fair value of financial instruments and foreign exchange loss/(gain)                                                                                          | 617     | (2,774) | 3,391    | (8,202)  | 6,350    | (14,552) |
| Q FFO adjustments for Equity-Accounted JVs <sup>(1)</sup>                                                                                                                  | 841     | 411     | 430      | 3,270    | 2,182    | 1,088    |
| FFO <sup>(2)</sup>                                                                                                                                                         | 37,997  | 53,657  | (15,660) | 122,366  | 147,846  | (25,480) |
| <i>Add (Subtract):</i>                                                                                                                                                     |         |         |          |          |          |          |
| Lease-up-Losses and Imputed Cost of Debt <sup>(3)</sup>                                                                                                                    | 1,329   | 2,291   | (962)    | 3,986    | 6,451    | (2,465)  |
| Income guarantees <sup>(4)</sup>                                                                                                                                           | 1,639   | 188     | 1,451    | 5,307    | 867      | 4,440    |
| IFFO <sup>(5)</sup>                                                                                                                                                        | 40,965  | 56,136  | (15,171) | 131,659  | 155,164  | (23,505) |
| FFOPU <sup>(6)</sup>                                                                                                                                                       | 0.17    | 0.25    | (0.08)   | 0.56     | 0.68     | (0.12)   |
| IFFOPU <sup>(6)</sup>                                                                                                                                                      | 0.19    | 0.26    | (0.07)   | 0.60     | 0.72     | (0.12)   |

(1) Non-GAAP; see reconciliation table following for the calculation of these amounts.

(2) Non-GAAP; refer to the preamble to this table and to the "Consolidated Results of Operations – FFO" section on page 16 of this MD&A for a discussion of the significance of this metric.

(3) Non-GAAP; refer to the "Significant Events – Unlevered Yield, Development Lease-up-Losses and Imputed Cost of Debt" section on page 10 of this MD&A. Includes Chartwell's proportionate share of Equity-accounted JVs.

(4) Non-GAAP; refer to the preamble to this table. Includes Chartwell's proportionate share of Equity-Accounted JVs.

(5) Non-GAAP; refer to the preamble to this table.

(6) Non-GAAP; refer to the "Per Unit Amounts" section on page 49 of this MD&A for a discussion of the calculation of the per unit amounts.



The following table provides supplemental information in respect of the adjustment to FFO for Equity-Accounted JVs:

|   | (\$000s)                                                                       | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|---|--------------------------------------------------------------------------------|---------|---------|--------|----------|----------|--------|
| B | Depreciation of PP&E and amortization of intangible assets                     | 964     | 529     | 435    | 2,867    | 1,966    | 901    |
| E | Loss/(gain) on disposal of assets                                              | -       | -       | -      | -        | (2)      | 2      |
| M | Change in fair value of financial instruments and foreign exchange loss/(gain) | (123)   | (118)   | (5)    | 403      | 218      | 185    |
| Q | FFO adjustments for Equity-Accounted JVs <sup>(1)</sup>                        | 841     | 411     | 430    | 3,270    | 2,182    | 1,088  |

(1) Non-GAAP; refer to the preamble to this section of this MD&A.

## Per Unit Amounts

In our calculations of FFOPU and IFFOPU, we add the weighted average Class B Units to the weighted average Trust Units as the Class B Units are exchangeable into Trust Units at any time at the option of the unitholder. In addition, we add Trust Units issued under EUPP and DTUs.

### Weighted Average Number of Units

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

| (000s)                                          | Q3 2020 | Q3 2019 | Change | 2020 YTD | 2019 YTD | Change |
|-------------------------------------------------|---------|---------|--------|----------|----------|--------|
| Weighted average number of units <sup>(1)</sup> | 218,268 | 216,421 | 1,847  | 218,004  | 215,902  | 2,102  |

(1) Includes Trust Units, Class B Units, Trust Units issued under EUPP and DTUs.

## Net Debt to Adjusted EBITDA

In addition to the financial covenants related to our Credit Facilities and Debentures, we internally monitor the Net Debt to Adjusted EBITDA ratio as calculated based on the definitions of Consolidated Indebtedness and Consolidated EBITDA contained in the trust indentures for our Debentures.

The following table summarizes our Net Debt to Adjusted EBITDA ratio at September 30, 2020 and December 31, 2019:

| (\$000s, except Net Debt to Adjusted EBITDA ratio)      | September 30, 2020 | December 31, 2019 |
|---------------------------------------------------------|--------------------|-------------------|
| Consolidated Indebtedness for Debentures <sup>(1)</sup> | 2,571,644          | 2,483,937         |
| Consolidated EBITDA for Debentures <sup>(2)</sup>       | 281,105            | 297,677           |
| Net Debt to Adjusted EBITDA ratio                       | 9.1                | 8.3               |

(1) Refer to the "Supporting Covenant Calculations – 4. Consolidated Indebtedness for Credit Facilities and Debentures" section on page 39 of this MD&A for the calculation of this amount.

(2) Refer to the "Supporting Covenant Calculations – 1. Consolidated EBITDA for Credit Facilities and Debentures" section on page 38 of this MD&A for the calculation of this amount.

The increase in Net Debt to Adjusted EBITDA ratio is primarily due to financing of certain acquisitions and development projects in lease-up which have not yet achieved their expected stabilized EBITDA contribution.

As discussed in the "Acquisitions, Development and Other Portfolio" section of this MD&A, four newly developed residences and one recently acquired residence contributed adjusted NOI of \$1.8 million in 2020 YTD. Upon achieving the expected stabilized average occupancy of 96%, these projects are estimated to generate annualized adjusted NOI of \$20.3 million. Our Net Debt to Adjusted EBITDA ratio when calculated based on consolidated EBITDA for debentures and adding the incremental NOI of these properties on a rolling 12-month basis of \$18.1 million as though stabilized would be 8.6.

## **Critical Accounting Policies and Estimates**

### **Critical Accounting Judgements, Estimates and Assumptions in Applying Accounting Policies**

In our 2019 MD&A as well as in our 2019 Financial Statements, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. There were no significant changes in 2020 YTD.

### **Changes in Accounting Policies**

Effective January 1, 2020 we adopted the amendments to IFRS 3, Business Combinations with no impact on our financial statements upon transition. This accounting policy is further described in Note 2 of the Financial Statements.

Government grants that become receivable as compensation for expenses incurred in profit or loss on a systematic basis are recognized in the periods in which the expenses are recognized. The grants are recorded as a deduction in the amount of the related expense.

## **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.

### **Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused an evaluation under their direct supervision of, the design of disclosure controls and procedures and internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2020. Based on this evaluation, we have concluded that we have a) designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to Chartwell is made known to the Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared and (ii) information required to be disclosed by Chartwell in its various reports filed or submitted under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation; and b) designed 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.

There were no material changes that occurred during the quarter ended September 30, 2020 that have significantly affected or are reasonably likely to significantly affect our internal control over financial reporting.

## Risks and Uncertainties and Forward-Looking Information

### Risks and Uncertainties

Our AIF, dated February 27, 2020, and our 2019 MD&A contain detailed discussions of risk factors and uncertainties facing Chartwell. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Please refer to the “Forward-Looking Information and COVID-19 Risk” section on page 3 of this MD&A for a discussion of risks related to COVID-19.

### 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”, “scheduled”, “estimates”, “intends”, “anticipates”, “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 and other 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:

- our expectations regarding the increase in operating and development costs;
- our expectations regarding the long term care funding;
- our expectations to meet all obligations as they become due utilizing our sources of liquidity;
- our expectations regarding achievement of certain occupancy levels;
- our estimates of the number of suites that could potentially be built on our owned lands which are subject to market demand and municipal and regulatory approval;
- 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;
- our ability to realize expected unlevered yields on our development projects, which are based on our estimates of stabilized occupancy, rental rates and NOI and expected total development costs;
- 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 renew maturing debt and to obtain new financings in due course;
- our ability to access low-cost mortgage financing insured by CMHC;
- our predictions and expectations with respect to the COVID-19 pandemic and its potential impact on Chartwell;
- the sustainability of our current distributions; and
- our expectations regarding future demand for retirement suites in the provinces in which we operate.

While we anticipate that subsequent events and developments may cause our views to change, we do not intend to update this 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. 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 AIF.