

CHARTWELL RETIREMENT RESIDENCES

Audited Consolidated Financial Statements
(In Canadian dollars)

Years ended December 31, 2022 and 2021



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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Chartwell Retirement Residences,

Opinion

We have audited the consolidated financial statements of Chartwell Retirement Residences (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2022 and December 31, 2021
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of certain risks and conditions associated with the COVID-19 pandemic***Description of the matter***

We draw attention to Notes 1 and 2(d) of the financial statements. Uncertainties in assessing future liquidity requirements have increased as a result of COVID-19. Since the onset of the pandemic, the level of demand for the Entity's services in its private pay retirement residences has been lower. In addition, the Entity has experienced a material increase in direct operating expenses, most significantly in respect of labour costs due to government directives and restrictions and outbreak activity. Any future negative impact to the Entity's business, results of operations, liquidity and financial condition will depend on the scope, severity and duration of the pandemic which remains uncertain.

The Entity believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in the Entity's credit facilities, as amended, for a period of at least 12 months from December 31, 2022. The Entity has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern. In making this significant judgment, the Entity has prepared income and cash flow forecasts. The most significant assumptions in the preparation of such forecasts are occupancy levels and the continued availability of financing.

Why the matter is a key audit matter

We identified the evaluation of certain risks and conditions associated with the COVID-19 pandemic as a key audit matter. This evaluation required significant auditor judgment in assessing the Entity's income and cash flow forecasts due to the degree of uncertainty in the most significant assumptions resulting from the impact of COVID-19.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the forecasted occupancy levels by comparing them to historical results. We took into account changes in conditions and events, or lack thereof, affecting the Entity to the adjustments or lack of adjustments made by the Entity in arriving at the assumption.

We evaluated the continued availability of financing by:

- considering the ratio of forecasted mortgage financing to forecasted fair value of the underlying properties for a selection of mortgages based on our understanding of the underlying properties and the industry.
- analyzing the Entity's forecasted compliance with significant financial covenants contained in loan agreements using information contained in income and cash flow forecasts and the terms of the loan agreements.

We assessed the sensitivity of possible changes to the forecasted occupancy levels and continued availability of financing on the income and cash flow forecasts.

We evaluated the impact of changes in the forecasted occupancy levels and continued availability of financing on management's conclusion that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

We also assessed the disclosures related to the Entity's significant judgment about whether there are material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Assessment of the recoverable amount of cash generating units

Description of the matter

We draw attention to Notes 2(d), 3(e), and 5 of the financial statements. The property, plant, and equipment (PP&E) carrying amount is \$3,176,045 thousand. The carrying amounts of the Entity's PP&E are assessed at each reporting date to determine if any events have occurred that would indicate the PP&E may be impaired. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognized immediately in profit or loss for the amount by which the asset's carrying amount exceed its recoverable amount. The recoverable amount is determined for the cash generating unit ("CGU") to which the PPE belongs. The recoverable amount of a CGU is the higher of (a) fair value less costs of disposal and (b) value in use.

The assessment of asset impairment requires significant assumptions, which include:

- the rental rates and occupancy rates used to estimate future stabilized cash flows.
- discount rates, capitalization rates and terminal capitalization rates applied to those cash flows.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of CGUs as a key audit matter. This matter represented an area of significant risk of material misstatement given the significant effect minor changes to significant assumptions had on the determination of the recoverable amount of a CGU. In addition, significant auditor judgment and specialized skills and knowledge were required in applying, and evaluating the results of, our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- For a selection of CGUs, we assessed the Entity's ability to accurately forecast by comparing the rental rates and occupancy rates used to estimate future stabilized cash flows of the prior year to actual results.
- For a selection of CGUs, we evaluated the Entity's rental rates and occupancy rates used to estimate future stabilized cash flows by comparing to actual historical rates. We took into account the changes in conditions and events affecting the CGUs to assess the adjustments, or lack of adjustments, made by the Entity in arriving at the rental rates and occupancy rates used to estimate future stabilized cash flows.
- For a selection of CGUs, we involved valuations professionals with specialized skills and knowledge who assisted in evaluating the discount rates, capitalization rates and terminal capitalization rates. These rates were compared to published reports of real estate industry commentators taking into consideration the features of the specific CGU.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report."

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as of the date of the auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Jason Gaiotto.

Toronto, Canada

March 2, 2023

CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets
(In thousands of Canadian dollars)

| As at December 31, | Note | 2022 | 2021 |
|--|------|--------------|--------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 28,469 | \$ 95,486 |
| Trade and other receivables | 9 | 20,465 | 18,668 |
| Capital funding receivable | 7 | — | 6,746 |
| Assets held for sale | 18 | 199,470 | — |
| Loans receivable | 11 | 4,183 | — |
| Other assets | 10 | 27,829 | 25,964 |
| Total current assets | | 280,416 | 146,864 |
| Non-current assets: | | | |
| Other assets | 10 | 8,973 | 2,731 |
| Loans receivable | 11 | 3,826 | 8,009 |
| Capital funding receivable | 7 | — | 22,161 |
| Investment in joint ventures | 12 | 12,947 | 8,954 |
| Intangible assets | 6 | 28,135 | 72,503 |
| Property, plant and equipment ("PP&E") | 5 | 3,176,045 | 3,156,031 |
| Total non-current assets | | 3,229,926 | 3,270,389 |
| Total assets | | \$ 3,510,342 | \$ 3,417,253 |

Liabilities and Unitholders' Equity

| | | | |
|---|----|--------------|--------------|
| Current liabilities: | | | |
| Lease obligations | 8 | \$ 843 | \$ 975 |
| Accounts payable and other liabilities | 17 | 199,818 | 194,886 |
| Distributions payable | | 12,147 | 11,965 |
| Liabilities related to assets held for sale | 18 | 140,692 | — |
| Senior unsecured debentures | 16 | 199,777 | — |
| Mortgages payable | 13 | 191,357 | 301,594 |
| Total current liabilities | | 744,634 | 509,420 |
| Non-current liabilities: | | | |
| Lease obligations | 8 | 7,473 | 11,585 |
| Other liabilities | 17 | 1,376 | 1,765 |
| Mortgages payable | 13 | 1,466,024 | 1,559,606 |
| Mortgages payable related to assets held for sale | 18 | 7,939 | — |
| Credit facilities | 14 | 181,234 | — |
| Term loans | 15 | 138,235 | 124,709 |
| Senior unsecured debentures | 16 | 149,677 | 349,067 |
| Class B Units of Chartwell Master Care LP ("Class B Units") | 20 | 12,916 | 18,089 |
| Deferred tax liabilities | 30 | 31,032 | 16,901 |
| Total non-current liabilities | | 1,995,906 | 2,081,722 |
| Total liabilities | | 2,740,540 | 2,591,142 |
| Unitholders' equity | 21 | 769,802 | 826,111 |
| Total liabilities and unitholders' equity | | \$ 3,510,342 | \$ 3,417,253 |

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

| | | | |
|-------------|---------|------------------|---------|
| "Ann Davis" | Trustee | "Jamie Scarlett" | Trustee |
|-------------|---------|------------------|---------|

CHARTWELL RETIREMENT RESIDENCES

Consolidated Statements of Net Income and Comprehensive Income
(In thousands of Canadian dollars)

| Years ended December 31, | Note | 2022 | 2021 |
|--|-------|------------|------------|
| Revenue: | | | |
| Resident | | \$ 661,029 | \$ 627,975 |
| Management and other fees | | 10,364 | 11,022 |
| Lease revenue from joint ventures | 12(b) | 35,408 | 37,358 |
| Interest income | | 1,191 | 1,379 |
| | 25 | 707,992 | 677,734 |
| Income (expenses): | | | |
| Direct property operating | 9, 33 | (464,704) | (423,884) |
| Depreciation of PP&E | 5 | (152,988) | (151,127) |
| Amortization of intangible assets | 6 | (3,148) | (6,734) |
| Share of net loss from joint ventures | 12(b) | (3,309) | (8,376) |
| General, administrative and trust | 9, 33 | (49,641) | (44,364) |
| Other income | 27 | 70,623 | 43,353 |
| Finance costs | 28 | (85,091) | (80,931) |
| Change in fair values of financial instruments and foreign exchange gains | 29 | 21,785 | 1,295 |
| | | (666,473) | (670,768) |
| Income before taxes | | 41,519 | 6,966 |
| Deferred income tax expense | 30 | (14,131) | (984) |
| Net income from continuing operations | | 27,388 | 5,982 |
| Discontinued operations: | | | |
| Net income from discontinued operations | 18 | 22,143 | 4,150 |
| Net income and comprehensive income ⁽¹⁾ | | \$ 49,531 | \$ 10,132 |

⁽¹⁾Referred to as "Net income" throughout the consolidated financial statements

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

Consolidated Statements of Unitholders' Equity

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

| 2022 | Trust Units issued in dollars, net | Trust Units issued under EUPP | EUPP receivable | Accumulated income (losses) | Distributions | Other equity components | Total |
|---|--|-------------------------------------|--------------------|-----------------------------------|----------------|----------------------------|------------|
| Unitholders' equity, December 31, 2021 | \$ 2,545,451 | \$ 21,592 | \$ (14,313) | \$ (96,829) | \$ (1,636,285) | \$ 6,495 | \$ 826,111 |
| Net income | — | — | — | 49,531 | — | — | 49,531 |
| Distributions to unitholders | — | — | — | — | (143,548) | — | (143,548) |
| Trust Units issued under the Distribution Reinvestment Program ("DRIP") | 34,967 | — | — | — | — | — | 34,967 |
| Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable | 2,620 | 647 | (1,497) | — | — | 6 | 1,776 |
| Interest on EUPP receivable | — | — | (185) | — | — | — | (185) |
| Distributions applied against EUPP receivable | — | — | 1,150 | — | — | — | 1,150 |
| Unitholders' equity, December 31, 2022 | \$ 2,583,038 | \$ 22,239 | \$ (14,845) | \$ (47,298) | \$ (1,779,833) | \$ 6,501 | \$ 769,802 |

Distributions were declared and paid at \$0.051 per unit per month for the months of January 2022 to December 2022. In the first two months of 2023, distributions were declared at \$0.051 per unit.

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

| 2021 | Trust Units issued in dollars, net | Trust Units issued under EUPP | EUPP receivable | Accumulated income (losses) | Distributions | Other equity components | Total |
|---|--|-------------------------------------|--------------------|-----------------------------------|----------------|----------------------------|------------|
| Unitholders' equity, December 31, 2020 | \$ 2,327,965 | \$ 20,311 | \$ (13,816) | \$ (106,961) | \$ (1,500,058) | \$ 6,536 | \$ 733,977 |
| Net income | — | — | — | 10,132 | — | — | 10,132 |
| Distributions to unitholders | — | — | — | — | (136,227) | — | (136,227) |
| Issuance of Trust Units pursuant to public offering (note 21) | 197,220 | — | — | — | — | — | 197,220 |
| Trust Units issued under the Distribution Reinvestment Program ("DRIP") | 19,430 | — | — | — | — | — | 19,430 |
| Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable | 836 | 1,281 | (1,433) | — | — | (41) | 643 |
| Interest on EUPP receivable | — | — | (184) | — | — | — | (184) |
| Distributions applied against EUPP receivable | — | — | 1,120 | — | — | — | 1,120 |
| Unitholders' equity, December 31, 2021 | \$ 2,545,451 | \$ 21,592 | \$ (14,313) | \$ (96,829) | \$ (1,636,285) | \$ 6,495 | \$ 826,111 |

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

| Years ended December 31, | Note | 2022 | 2021 |
|--|----------|-----------|-----------|
| Cash provided by (used in): | | | |
| Operating activities: | | | |
| Net income | | \$ 49,531 | \$ 10,132 |
| Items not affecting cash: | | | |
| Depreciation and amortization | 5, 6, 18 | 158,154 | 168,091 |
| Finance costs | 18, 28 | 93,239 | 89,455 |
| Transaction costs arising from dispositions | 27 | 1,992 | – |
| Other (income) expense | 18, 27 | (71,872) | (43,353) |
| Interest income | 18, 25 | (2,358) | (2,862) |
| Change in fair values of financial instruments and foreign exchange (gains) losses | 29 | (21,785) | (1,295) |
| Deferred income tax (benefit) expense | 30 | 14,131 | 984 |
| Share of net loss from joint ventures | 12(b) | 3,309 | 8,376 |
| Other | | 1,752 | 682 |
| Change in trade and other receivables | | (691) | 11,742 |
| Change in other assets | | (2,167) | (5,272) |
| Change in accounts payable and other liabilities | | 2,477 | 5,097 |
| | | 225,712 | 241,777 |
| Interest income and other income received | | 2,358 | 2,896 |
| Interest paid | | (90,361) | (88,350) |
| | | 137,709 | 156,323 |
| Financing activities: | | | |
| Proceeds from public offering | 21 | – | 192,433 |
| Proceeds from mortgage financing | 19 | 147,817 | 138,808 |
| Mortgage repayments | 5, 19 | (180,006) | (67,198) |
| Scheduled mortgage principal repayments | 19 | (86,997) | (84,017) |
| Term loan proceeds (repayments) | 15 | 13,600 | (150,000) |
| Draws on credit facilities | 14 | 184,000 | – |
| Additions to finance costs | 13 | (8,944) | (8,434) |
| Distributions paid | | (108,584) | (116,099) |
| | | (39,114) | (94,507) |
| Investing activities: | | | |
| Acquisition of assets, net of cash acquired | 4 | (141,426) | (7,462) |
| Additions to PP&E and intangible assets | 5 | (111,361) | (115,344) |
| Proceeds from disposal of PP&E | 5 | 87,732 | 79,917 |
| Change in capital funding receivable | 7 | 6,746 | 6,635 |
| Contributions to joint ventures | 12(b) | (8,453) | (3,652) |
| Distributions received from joint ventures | 12(b) | 1,150 | 3,419 |
| | | (165,612) | (36,487) |
| Increase / (Decrease) in cash and cash equivalents | | (67,017) | 25,329 |
| Cash and cash equivalents, beginning of year | | 95,486 | 70,157 |
| Cash and cash equivalents, end of year | | \$ 28,469 | \$ 95,486 |

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements

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

1. Organization and nature of operations:

Chartwell Retirement Residences ("Chartwell") is an unincorporated open-ended real estate trust governed by the laws of the Province of Ontario and created as of July 7, 2003 and subsisting under the Declaration of Trust. Chartwell's head office is located at 7070 Derrycrest Drive, Mississauga, ON L5W 0G5. Chartwell's main business is ownership, operations and management of retirement residences and long-term care homes in Canada. On March 31, 2022, Chartwell entered into a definitive agreement to sell sixteen long-term care homes in Ontario one of which has an adjacent retirement residence, thereby ceasing the operation of its long-term care segment (note 18).

Chartwell owns 100% of the outstanding Trust Units of CSH Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario, which in turn owns 52% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors and are exchangeable into units of Chartwell. Chartwell also has direct ownership of 48% of Class A Units of Master LP.

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

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

COVID-19 business impacts and related risks:

The global COVID-19 pandemic and the related international public health emergency began in early 2020. In January 2023, the World Health Organization announced that the COVID-19 pandemic was probably at an inflection point from being considered an international public health emergency and moved to maintain certain measures temporarily. During the pandemic, various measures were introduced by Canadian federal and provincial governments and other regulatory authorities affecting society generally and also specifically related to retirement residences and long term care homes. These measures were intended to mitigate the transmission of COVID-19 and included general lockdowns, vaccination programs and mandates, screening and testing requirements, social distancing recommendations, access and capacity restrictions, as well as self-isolation and masking requirements, collectively "COVID-19 Restrictions". The majority of these measures are no longer in effect in society in general. In respect of retirement residences and long term care homes COVID-19 infections are now managed similarly to other infectious diseases, such as influenza.

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements

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

1. Organization and nature of operations (continued):

Chartwell's revenue and operating results depend significantly on the occupancy levels at Chartwell's retirement residences and long-term care homes. The COVID-19 pandemic negatively affected Chartwell's business and operations and consumer sentiment for congregate living. This resulted in lower new resident move ins and occupancy declines.

In addition, COVID-19 Restrictions increased direct property operating expenses due to the provision of enhanced care and protection to our residents and staff; increased utilization of sick leave benefits for employees; increased temporary staffing agency and overtime costs; increased personal protective equipment costs; enhanced disinfection and cleaning; and extended dining services to facilitate physical distancing and/or isolation.

Beginning in the spring of 2022, demand for Chartwell's services returned to pre-pandemic levels and monthly move ins of new residents have increased to pre-pandemic levels and Chartwell's occupancies have started to gradually increase. However, the scope, severity and duration of the impacts of the continuation of COVID-19 pandemic remain uncertain.

As the COVID-19 Restrictions have eased, the expenses for infection prevention and control have begun to decline. However, the COVID-19 pandemic exacerbated staffing shortages for both health care staff and service workers remain challenging. These staffing shortages have resulted in an elevation in direct property operating expenses due to the premium fees paid to temporary staffing agencies to provide workers to fill vacancies and augment staff complement where necessary.

It remains possible that COVID-19 Restrictions or similar measures could be reintroduced which could further negatively affect Chartwell's occupancy, revenues and expenses.

Further, although various government funding programs were implemented and Chartwell has had, and may continue to have, access to the programs there is no certainty as to the extent to which Chartwell will continue to have access to these programs nor whether these programs will mitigate the negative effects of declines in occupancy and increases in operating expenses of Chartwell.

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements

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

1. Organization and nature of operations (continued):

Financing arrangements:

Chartwell believes that it has sufficient liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 2022. Further, Chartwell has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon Chartwell's ability to continue as a going concern. In making this significant judgment, Chartwell has prepared income and cash flow forecasts with the most significant assumptions being occupancy levels and continued availability of financing.

Liquidity risk is the risk that an entity is unable to fund its assets or meet its obligations as they come due (note 2(d) and note 22(b)(ii)). Uncertainties in assessing future liquidity requirements have increased as a result of COVID-19. Since the onset of the pandemic until the spring of 2022, the level of demand for Chartwell's services in its private pay retirement residences has been lower. In addition, Chartwell has experienced a material increase in direct operating expenses, most significantly in respect of labour cost due to government directives and restrictions and outbreak activity. Any future negative impact to Chartwell's business, results of operations, liquidity and financial condition will depend on the scope, severity and duration of the pandemic which remains uncertain.

The majority of Chartwell's financing arrangements require compliance with a number of financial covenants including minimum debt service covenants and limiting distributions should the distributions exceed certain thresholds. Chartwell has proactively obtained amendments to its financing arrangements as disclosed in notes 13, 14 and 15.

The available capacity under the secured and unsecured credit facilities are determined in accordance with terms in the credit agreements which consider the lending value of collateral properties which are impacted by the operating income of such properties as well as the value of unencumbered property assets. The available borrowing capacity of the secured and unsecured credit facilities, as disclosed in note 14, may be reduced due to the impact of the pandemic on Chartwell.

If necessary, Chartwell will take the following additional mitigating actions to enhance liquidity, reduce costs, and optimize cash flow:

- arrange additional financing in respect of unencumbered assets and construction projects,
- subject to market conditions, dispose of certain non-core assets,
- raise funds through new senior unsecured debentures or equity financing,
- reduce marketing and other expenses, and
- reduce distributions.

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements

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

1. Organization and nature of operations (continued):

Litigation:

The COVID-19 pandemic increased the risk of litigation which, even if not meritorious, and even if covered by Chartwell's insurance, could result in increased costs to Chartwell to defend. In 2020 Chartwell was named in three separate proposed class actions related to the pandemic which as of February 24, 2022, have been consolidated into one proceeding (the "Consolidated Claim") seeking an order to be certified as a class action. Chartwell's insurers are handling the defense of the Consolidated Claim.

See commitments and contingencies (note 31) for additional details.

Financial:

The COVID-19 pandemic has impacted both the global and Canadian economy overall and credit markets were and may continue to be negatively affected. This, in combination with reduced revenues and increased operating costs, may make it more difficult to access the credit markets, result in a higher cost or less advantageous credit terms than previously impacting refinancing of outstanding debt when due.

CHARTWELL RETIREMENT RESIDENCES

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

2. Basis of preparation:

(a) Statement of compliance:

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

On March 2, 2023 the Board of Trustees authorized the consolidated financial statements for issue.

(b) Functional currency:

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

(c) Basis of measurement:

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

- (i) financial instruments classified as fair value through profit or loss ("FVTPL") are measured at fair value (note 3(h)); and
- (ii) liabilities for cash-settled, unit-based payment arrangements are measured at fair value.

(d) Use of estimates and judgments:

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

CHARTWELL RETIREMENT RESIDENCES

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

2. Basis of preparation (continued):

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

- (i) notes 3(a)(iii) and 4 - The estimate of the fair value of assets and liabilities acquired in property acquisition
- (ii) notes 3(e) and 5 - Impairment of property, plant and equipment and
- (iii) note 3(e) and 6 - Impairment of indefinite life intangible assets.

The following are the significant judgments that have been made in applying Chartwell's accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

- (i) note 1 - Assessing whether events or conditions represent the existence of material uncertainties that may cast significant doubt about Chartwell's ability to continue as a going concern including the estimation of future cash flows
- (ii) note 3(a) - Determining whether an acquisition is a business combination or asset acquisition
- (iii) note 3(c) - Componentization of property, plant and equipment
- (iv) note 3(d)(i) - Intangible assets - licenses: assessment of indefinite useful life
- (v) note 3(l)(ii) - Assessing the probability of a significant reversal in the amount of cumulative revenue recognized as variable consideration
- (vi) note 3(n) - Assessing whether a component of an entity comprises discontinued operations and
- (vii) note 31(f) - Assessing the probability of settling an obligation based on the occurrence or non-occurrence of a future event.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies:

(a) Basis of consolidation:

(i) Transactions eliminated on consolidation:

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

(ii) Joint arrangements:

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

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

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

(iii) Business combinations:

The cost of a business combination is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. Chartwell recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

Subsequent changes in the fair value of contingent consideration arrangements are recognized in profit or loss. The excess of the purchase price over the fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition goodwill is recorded as an asset. When an acquisition does not meet the criteria for business combination accounting treatment, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated upon initial recognition to the assets and liabilities acquired based upon their relative fair values. Chartwell also uses the optional fair value concentration test when determining whether a transaction is to be accounted for as an asset acquisition or a business combination.

Transaction costs, other than those associated with the acquisitions accounted for as an acquisition of a group of assets and liabilities and the issue of debt or equity securities incurred in connection with the acquisition are expensed as incurred.

For business combinations, measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period", which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date. Subsequent changes in fair value of contingent consideration classified as assets or liabilities that do not qualify as measurement period adjustments are recognized as a gain or loss in profit or loss.

If a business combination is achieved in stages, any previously held non-controlling equity interest in the acquiree is remeasured to FVTPL when control is acquired.

(b) Foreign currency:

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(c) Property, plant and equipment:

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

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

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

Significant parts of the buildings are accounted for as separate components of the property, based on management's judgment of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization. Additions to PP&E that do not have a cost that is significant in relation to the total cost of the addition may also be recognized as a separate component. The cost of replacing a component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to Chartwell, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of ongoing repairs and maintenance of the properties are recognized in profit or loss as incurred.

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

Components:

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

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

Gains/losses on disposition of PP&E are recognized in profit or loss in accordance with the requirements for determining when a performance obligation is satisfied under IFRS 15, Revenue from Contracts with Customers ("IFRS 15").

Upon allocation of a purchase price of an asset acquisition or a business combination, Chartwell determines the value associated with in-place resident contracts, which represents the avoided cost of originating the acquired resident contracts plus the value of the avoided loss of net resident revenue over the estimated lease-up period of the property. Resident contracts are amortized over the expected term of the resident occupancy and are recorded as a component of buildings.

(d) Intangible assets:

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

(i) Licenses:

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

(ii) Software:

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(iii) Goodwill:

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

(e) Impairment of non-financial assets:

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

The assessment of asset impairment requires management to make significant assumptions about the selection of discount rates, capitalization rates and terminal capitalization rates used to determine the fair value of a CGU. Significant assumptions are also required to estimate future stabilized cash flows, which include assumptions about rental rates and occupancy rates. Such assumptions can be significantly impacted by current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Management also applies adjustments to reflect the expectations of market participants. Estimates and assumptions used in the determination of the recoverable amounts were based upon information that was known at the time, along with the future outlook.

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

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

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

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

(f) Government grants and government assistance:

(i) Capital funding receivable:

Grants received from the Government of Ontario for the construction costs of long-term care homes are initially recorded at fair value as capital funding receivable, with an offset to the cost of the related PP&E. These grants are received over time and the accretion of the receivables is recognized in profit or loss as interest income over the life of the grant.

(ii) Government income grants:

Chartwell recognizes government income grants that become receivable as compensation for expenses incurred in profit or loss on a systematic basis in the periods in which the expenses are recognized. The grants are recorded as a reduction of the related expense.

(g) Assets held for sale:

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are generally measured at fair value on initial recognition. The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) FVTPL, and (iii) fair value through other comprehensive income ("FVTOCI").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in change in fair values of financial instruments and foreign exchange gains (losses) in profit or loss. Financial assets classified as FVTOCI are measured at fair value with gains or losses recognized through other comprehensive income, except for gains and losses pertaining to impairment or foreign exchange recognized in profit or loss.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability presented in other comprehensive income, and the remaining amount of change in fair value presented in profit or loss.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

Chartwell has made the following classifications for its financial instruments:

| Account | Measurement |
|--|----------------|
| Cash and cash equivalents | Amortized cost |
| Trade and other receivables | Amortized cost |
| Restricted cash | Amortized cost |
| Income guarantee receivable | FVTPL |
| Loans receivable | FVTPL |
| Marketable securities | FVTPL |
| Accounts payable and other liabilities | Amortized cost |
| Distributions payable | Amortized cost |
| Mortgages payable | Amortized cost |
| Credit facilities | Amortized cost |
| Term loans | Amortized cost |
| Senior unsecured debentures | Amortized cost |
| Derivative Instruments | FVTPL |
| Class B Units | FVTPL |

Chartwell derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Chartwell derecognizes a financial liability when, and only when, Chartwell's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized through profit or loss.

Chartwell determines expected credit losses ("ECL") on trade and other receivables, and loans receivable using a provision matrix based on historical credit loss experiences adjusted for current and forecasted future economic conditions to estimate lifetime ECL. Impairment losses are recorded in profit or loss with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include, discounts or premiums relating to assumed debt, fees and commissions paid to agents, brokers, advisers, lenders and insurers, transfer taxes and duties.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

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

Derivative instruments:

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

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

Trust Units:

Trust Units are redeemable at the holder's option and therefore are considered to be a puttable instrument in accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain exemption conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. The Trust Units meet the exemption conditions of IAS 32 and are presented as equity.

However, as a result of the redemption feature of the Trust Units, they meet the definition of a financial liability under IAS 32 and may not be considered as equity for the purposes of calculating net income on a per unit basis in accordance with IAS 33, Earnings Per Share. Chartwell has therefore elected to not report an earnings per unit calculation, permitted under IFRS.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

Class B Units:

The Class B Units of the Partnership are economically equivalent to Trust Units, receive distributions equal to the distributions paid on Trust Units and are exchangeable at the holder's option into Trust Units. One Special Trust Voting Unit in Chartwell is issued to the holder of Class B Units for each Class B Unit held. However, the limited IAS 32 exception for presentation as equity does not extend to the Class B Units. As a result, the Class B Units have been classified as financial liabilities and are measured at FVTPL. The fair value of the Class B Units is measured every period by reference to the traded value of the Trust Units, with changes in measurement recorded in profit or loss. Distributions on the Class B LP Units are recorded as a finance cost in profit or loss in the period in which they become payable.

(i) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by Chartwell.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

Chartwell uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(j) Employee benefits:

(i) Short-term benefits:

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

(ii) Employee health benefits:

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(iii) Unit-based payment plans:

Chartwell maintains an EUPP, DTU Plan, and Restricted Trust Unit Plans ("RTU") for its employees, directors and Trustees. The EUPP and DTU Plan require settlement in Trust Units. The RTU Plans are settled in cash and are accounted for as cash-settled awards, as Chartwell's Trust Units are puttable. The fair value of the amount payable is recognized as general, administrative and trust expenses and direct property operating expense in profit and loss, with a corresponding increase in liabilities, over the relevant service periods. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability for the DTU and EUPP plans are recognized in change in fair values of financial instruments and foreign exchange gains (losses) in profit or loss. The changes in the fair value of the liability for the RTU Plans are recognized in general, administrative and trust expenses and direct property operating expenses.

(k) Income taxes:

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

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

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

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

Judgment is required to assess the interpretation of tax legislation when recognizing and measuring current and deferred tax assets and liabilities. The impact of different interpretations and applications could potentially be material. Chartwell recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

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

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(l) Revenue recognition:

Chartwell derives most of its revenue from rental income and care services provided to residents as well as management services to owners of retirement residences and long term care homes.

(i) Retirement residences resident revenue:

Chartwell charges for (a) the rental of retirement accommodation and (b) services provided to residents of retirement residences. Base rent amounts are allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component is determined using an adjusted market assessment approach and the stand-alone selling price of the services components are determined using both an adjusted market assessment approach and an expected cost plus a margin approach.

(a) Rental revenue:

Revenue from rental components is recognized on a straight-line basis over the lease term. Revenue recognition commences when a resident has the right to use the retirement residence and revenue is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred and recorded as contract liabilities.

In certain jurisdictions, residents of retirement residences are eligible for government subsidies and the rates of these subsidies are regulated. In some jurisdictions, rent control regulations affect the rates that can be charged for rental accommodation.

(b) Services revenue:

Revenue related to the service components of Chartwell's leases is accounted for in accordance with IFRS 15. These services consist primarily of the provision of meals, nursing services, housekeeping and laundry services, leisure and social programs, various amenities and the recovery of utilities and property maintenance costs and are recognized over time, typically on a monthly basis, which is when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(ii) Long-term care homes resident revenue:

Revenue in respect of services provided to residents of long-term care homes is accounted for in accordance with IFRS 15. These services consist primarily of nursing services, the provision of meals, housekeeping and laundry services, programs, amenities and the recovery of utilities and property maintenance costs.

In Canada, the provinces or regional health authorities regulate the amounts charged to residents of long-term care homes, a substantial portion of which are funded by provincial or regional programs. Such revenue is recognized over time, typically on a monthly basis, which is when the services are provided to residents. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

In certain cases, Chartwell is only entitled to funding when it has achieved predetermined occupancy levels and has met additional criteria, which may include achieving certain levels of expenditures or levels of labour hours. Revenue in respect of such variable consideration is recognized based on management's best estimate of the most likely amount to which Chartwell will ultimately be entitled.

Various levels of government provide Chartwell with funding of eligible costs in respect of specific program activities. In 2021 and 2022, government provided funding for COVID-19 costs. In cases where there is variability in the amount of funding for which Chartwell may ultimately qualify, revenue is recognized based on management's best estimate of the most likely amount to which Chartwell will ultimately be entitled.

Estimated amounts of variable consideration are only included in revenue to the extent that Chartwell assesses that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(iii) Fee revenue:

Chartwell provides property and development management services for both third party and jointly owned operating entities. Property management services revenue relates to providing certain operations management and asset management services. Fees related to these services are variable in nature and are not estimated, but rather are allocated to the distinct service periods to which they specifically relate and are recognized when services are performed. Payments are due at the beginning of each month.

(iv) Lease revenue from joint ventures:

Chartwell earns revenue under lease arrangements with operating entities which are jointly owned with Welltower Inc. ("Welltower"). The leases are accounted for as operating leases and lease revenue is recognized over the term of the underlying leases on a straight-line basis. Payments are due at the beginning of each month.

(m) Leases:

At inception of a contract, Chartwell assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Chartwell uses the definition of a lease in IFRS 16.

(i) As a lessee:

At commencement or on modification of a contract that contains a lease component, Chartwell allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, Chartwell has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Chartwell recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Chartwell's incremental borrowing rate. Generally, Chartwell uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized costs using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Chartwell's estimate of the amount expected to be payable under a residual value guarantee, if Chartwell changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

Chartwell presents the right-of-use assets in PP&E and lease liabilities are recorded separately on the consolidated balance sheets as "lease obligations".

(ii) Short-term leases and leases of low-value assets:

Chartwell has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including information technology equipment. Chartwell recognizes the lease payments associated with these leases as an expense on a straight-line basis of the lease term.

(iii) As a lessor:

At inception or on modification of a contract that contains a lease component, Chartwell allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

Chartwell has determined that when it acts as a lessor, its leases do not transfer substantially all of the risks and rewards incidental to ownership of the underlying assets and as a result they are classified as operating leases.

If an arrangement contains lease and non-lease components, Chartwell applies IFRS 15 to allocate the consideration in the contract.

Chartwell recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of resident revenue.

(n) Discontinued operations

The results of operations of Chartwell's long term care segment are classified as discontinued operations in these financial statements (note 18). A discontinued operation is a component of Chartwell's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as discontinued operations occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of earnings is re-presented as if the operations had been discontinued from the start of the comparative period.

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

(i) Amendments to IAS 1, Presentation of financial statements ("IAS 1"):

On January 23, 2020, the IASB issued amendments to IAS 1 to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period.

Chartwell intends to adopt the amendments in its consolidated financial statements when the standard becomes effective, on January 1, 2023. Chartwell is assessing the potential impact of the amendments, however, does not expect them to have a material impact on its consolidated financial statements.

- (ii) Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8") regarding the definition of Accounting Estimates

On February 12, 2021, the IASB issued amendments to IAS 8 to assist entities to distinguish between accounting policies and accounting estimates. The amendments apply to annual periods beginning on or after January 1, 2023. Earlier adoption is permitted.

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Chartwell intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the amendment becomes effective. Chartwell is assessing the potential impact of the amendments, however, does not expect them to have a material impact on its consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

3. Significant accounting policies (continued):

(iii) Amendments to IAS 1, Disclosure Initiative

On February 12, 2021, the IASB issued *Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments help entities provide useful accounting policy disclosures. The key amendments include requiring entities to disclose their material accounting policies rather than their significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

Chartwell intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the amendment becomes effective. Chartwell is assessing the potential impact of the amendments, however, does not expect them to have a material impact on its consolidated financial statements.

4. Acquisitions:

(a) Acquisitions during the year ended December 31, 2022:

On April 1, 2022, Chartwell acquired three retirement residences in Ontario for a purchase price of \$228,000, including a deferred payment of \$3,000. The purchase price was settled by assumption of \$85,635 of mortgages on two of the acquired properties, bearing a weighted average interest rate of 3.7%. Chartwell applied the optional concentration test in accordance with IFRS 3 and accounted for the acquisition as an asset acquisition. Acquisition related costs of \$6,088 have been capitalized to the building in the consolidated balance sheet.

CHARTWELL RETIREMENT RESIDENCES

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

4. Acquisitions (continued):

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition for three retirement residences.

| | |
|------------------------------------|-----------------------|
| Date of acquisition | April 1, 2022 |
| Segment | Retirement Operations |
| Location | Province of Ontario |
| Number of properties (suites) | 3 (467 suites) |
| PP&E | \$ 233,435 |
| Working capital adjustments | (291) |
| Net assets acquired | \$ 233,144 |
| Cash consideration | \$ 135,421 |
| Mortgage assumed | 85,635 |
| Acquisition related costs incurred | 6,088 |
| Deferred Payment and Holdbacks | 6,000 |
| Total consideration | \$ 233,144 |

(b) Acquisitions during the year ended December 31, 2021:

On April 14, 2021, Chartwell along with its partner, Welltower Inc. ("Welltower") each purchased a 42.5% interest in Chartwell Le Teasdale II residence pour retraites ("Chartwell Le Teasdale II"), a 221 suite Retirement Residence located in Terrebonne, Quebec, from Batimo Inc. ("Batimo"), with Batimo retaining the 15 % ownership. Simultaneously, Chartwell sold half of its interest (42.5%) in Chartwell Le Teasdale I residence pour retraites ("Chartwell Le Teasdale I") to Welltower to align the ownership structures across the entire complex for a contractual sales price of \$30,694 with Welltower assuming \$23,364 of the existing mortgage (note 12).

Chartwell directly holds its 42.5% interest in the real estate, related mortgage and operations of the facility which is accounted for as a joint operation (proportionately consolidated) (note 12).

CHARTWELL RETIREMENT RESIDENCES

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

4. Acquisitions (continued):

The purchase price for Chartwell's 42.5% interest in Chartwell Le Teasdale II was \$30,294 before transaction costs and working capital adjustments and was settled through the assumption of 42.5% of related construction financing of \$18,668, settlement of an outstanding mezzanine loan of \$3,969 with the balance, net of working capital adjustments paid in cash. Chartwell applied the optional concentration test in accordance with IFRS 3 and accounted for the acquisition as an asset acquisition. Acquisition related costs of \$295 have been capitalized to the building in the consolidated balance sheet.

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition for Chartwell Le Teasdale II.

| | |
|--|-----------------------|
| Date of acquisition | April 14, 2021 |
| Segment | Retirement Operations |
| Location | Province of |
| Quebec | |
| Number of properties (suites) | 1 (221 suites) |
| PP&E | \$ 30,589 |
| Working capital adjustments | (195) |
| Acquired cash | 440 |
| Net assets acquired | \$ 30,834 |
| Cash consideration | \$ 7,902 |
| Discharge of mezzanine loan receivable | 3,969 |
| Mortgage assumed | 18,668 |
| Acquisition related costs incurred | 295 |
| Total consideration | \$ 30,834 |

CHARTWELL RETIREMENT RESIDENCES

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

5. Property, plant and equipment:

| | Land | Buildings | Furniture, fixtures and equipment | Properties under development | Land held for development | Total |
|---|------------|--------------|---|------------------------------------|---------------------------------|--------------|
| Cost | | | | | | |
| Balance, December 31, 2020 | \$ 348,295 | \$ 3,481,868 | \$ 164,451 | \$ 97,182 | \$ 22,224 | \$ 4,114,020 |
| Additions | — | 64,207 | 11,391 | 46,203 | — | 121,801 |
| Additions through acquisitions (note 4) | 1,174 | 28,643 | 772 | — | — | 30,589 |
| Disposals | (4,870) | (68,163) | (2,860) | — | (900) | (76,793) |
| Derecognition | — | (61,600) | — | — | — | (61,600) |
| Transfers | 1,498 | 76,180 | 1,161 | (78,839) | — | — |
| Balance, December 31, 2021 | 346,097 | 3,521,135 | 174,915 | 64,546 | 21,324 | 4,128,017 |
| Additions | — | 70,945 | 10,461 | 32,326 | 192 | 113,924 |
| Additions through acquisitions (note 4) | 16,600 | 207,891 | 4,652 | — | 4,292 | 233,435 |
| Disposals | (4,160) | (47,645) | (5,275) | — | — | (57,080) |
| Derecognition | — | (45,706) | — | — | — | (45,706) |
| Reclassification to assets held for sale (note 18) | (30,051) | (144,322) | (24,887) | (457) | (2,743) | (202,460) |
| Balance, December 31, 2022 | \$ 328,486 | \$ 3,562,298 | \$ 159,866 | \$ 96,415 | \$ 23,065 | \$ 4,170,130 |
| Accumulated depreciation and impairment losses | | | | | | |
| Balance, December 31, 2020 | \$ 344 | \$ 770,118 | \$ 120,613 | \$ — | \$ 166 | \$ 891,241 |
| Depreciation of right-of-use assets | 172 | 328 | 792 | — | 83 | 1,375 |
| Depreciation | — | 141,473 | 17,534 | — | — | 159,007 |
| Disposals | — | (16,569) | (2,318) | — | — | (18,887) |
| Derecognition | — | (61,600) | — | — | — | (61,600) |
| Impairment | — | 850 | — | — | — | 850 |
| Balance, December 31, 2021 | 516 | 834,600 | 136,621 | — | 249 | 971,986 |
| Depreciation of right-of-use assets | 115 | 233 | 749 | — | 22 | 1,119 |
| Depreciation | — | 138,308 | 15,377 | — | — | 153,685 |
| Disposals | — | (12,773) | (5,026) | — | — | (17,799) |
| Derecognition | — | (45,706) | — | — | — | (45,706) |
| Reclassification to assets held for sale (note 18) | (237) | (48,713) | (19,979) | — | (271) | (69,200) |
| Balance, December 31, 2022 | \$ 394 | \$ 865,949 | \$ 127,742 | \$ — | \$ — | \$ 994,085 |
| Carrying amounts | | | | | | |
| Balance, December 31, 2021 | \$ 345,581 | \$ 2,686,535 | \$ 38,294 | \$ 64,546 | \$ 21,075 | \$ 3,156,031 |
| Balance, December 31, 2022 | 328,092 | 2,696,349 | 32,124 | 96,415 | 23,065 | 3,176,045 |

CHARTWELL RETIREMENT RESIDENCES

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

5. Property, plant and equipment (continued):

The following table summarizes the balance of Chartwell's right-of-use assets included in the table above as at December 31, 2021 and December 31, 2022:

| Right-of-use assets | Land ⁽¹⁾ | Buildings | Furniture, fixtures and equipment | Land held for development ⁽¹⁾ | Total |
|--|---------------------|-----------|-----------------------------------|--|-----------|
| Balance, December 31, 2020 | \$ 7,496 | \$ 6,129 | \$ 1,559 | \$ 2,284 | \$ 17,468 |
| Additions | — | — | 754 | — | 754 |
| Depreciation | (172) | (328) | (792) | (83) | (1,375) |
| Disposals | — | (139) | — | — | (139) |
| Balance, December 31, 2021 | 7,324 | 5,662 | 1,521 | 2,201 | 16,708 |
| Additions | — | — | 910 | — | 910 |
| Depreciation | (115) | (233) | (749) | (22) | (1,119) |
| Disposals | — | — | (24) | — | (24) |
| Reclassification to assets held for sale (note 18) | (1,631) | (1,813) | (298) | (2,179) | (5,921) |
| Balance, December 31, 2022 | \$ 5,578 | \$ 3,616 | \$ 1,360 | \$ — | \$ 10,554 |

⁽¹⁾Relates to land leases

On December 7, 2022, Chartwell completed the sale of two long term care homes in British Columbia with 264 beds for an aggregate selling price of \$112,000 with the purchaser assuming the mortgage for one of the homes with a balance of \$26,102. The remaining balance of the purchase price was paid in cash, of which \$15,762 was used to repay the mortgage related to the second property. These two homes were managed and operated in Chartwell's Retirement segment.

On April 14, 2021, Chartwell completed the sale of half of its 85% interest (42.5%) of Chartwell Le Teasdale I located in Quebec to Welltower for an aggregate selling price of \$30,694 with Welltower assuming \$23,364 of the existing mortgage (notes 12).

On December 1, 2021, Chartwell completed the sale of four retirement residences located in Ontario for an aggregate selling price of \$71,500 and discharged related mortgages of \$14,132.

CHARTWELL RETIREMENT RESIDENCES

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

5. Property, plant and equipment (continued):

Other PP&E information:

On March 31, 2022, Chartwell entered into a definitive agreement to sell sixteen long-term care homes in Ontario one of which has an adjacent retirement residence, thereby ceasing the operation of its long-term care segment (note 18). Concurrently with the sale of the long-term care operations, Chartwell entered into an additional purchase and sale agreement to sell one long-term care home currently under redevelopment for a sale price of \$64,500 including estimated capital funding receivable of \$30,900 to be paid upon completion of the development, subject to additional adjustments in accordance with the terms of the purchase and sale agreement. The forward sale contract will close when the redevelopment of the project is complete.

During the year ended December 31, 2022, no properties under development were transferred to other components of PP&E upon becoming available for use (2021 - one property and an addition to one property). During the year ended December 31, 2022, Chartwell capitalized \$2,276 (2021 - \$3,468) of borrowing costs related to development projects under construction at an average interest rate of 3.59% (2021 - 3.42%).

Since January 1, 2010, \$276,058 of fully amortized resident contracts has been removed from the cost and accumulated depreciation of PP&E in respect of residences which were held by Chartwell as at December 31, 2022 (2021 - \$268,346 in respect of residences which were held by Chartwell as at December 31, 2021).

Chartwell completes regular assessments of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E. No impairment was recorded during the year ended December 31, 2022 (2021 - \$850).

CHARTWELL RETIREMENT RESIDENCES

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

6. Intangible assets:

| | Goodwill | Licenses | Software | Total |
|---|----------|-----------|-----------|-----------|
| Cost | | | | |
| Balance, December 31, 2020 | \$ 9,233 | \$ 41,344 | \$ 46,819 | \$ 97,396 |
| Additions | — | — | 1,809 | 1,809 |
| Disposals | — | — | (746) | (746) |
| Derecognition | — | — | (3,581) | (3,581) |
| Balance, December 31, 2021 | 9,233 | 41,344 | 44,301 | 94,878 |
| Additions | — | — | 1,090 | 1,090 |
| Disposals | — | (1,310) | (63) | (1,373) |
| Reclassification to assets held for sale (note 18) | — | (35,194) | (9,095) | (44,289) |
| Balance, December 31, 2022 | \$ 9,233 | \$ 4,840 | \$ 36,233 | \$ 50,306 |
| Accumulated amortization and impairment losses | | | | |
| Balance, December 31, 2020 | \$ — | \$ — | \$ 18,458 | \$ 18,458 |
| Disposals | — | — | (211) | (211) |
| Derecognition | — | — | (3,581) | (3,581) |
| Amortization | — | — | 7,709 | 7,709 |
| Balance, December 31, 2021 | — | — | 22,375 | 22,375 |
| Disposals | — | — | (50) | (50) |
| Amortization | — | — | 3,350 | 3,350 |
| Reclassification to assets held for sale (note 18) | — | — | (3,504) | (3,504) |
| Balance, December 31, 2022 | \$ — | \$ — | \$ 22,171 | \$ 22,171 |
| Carrying amounts | | | | |
| Balance, December 31, 2021 | \$ 9,233 | \$ 41,344 | \$ 21,926 | \$ 72,503 |
| Balance, December 31, 2022 | 9,233 | 4,840 | 14,062 | 28,135 |

CHARTWELL RETIREMENT RESIDENCES

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

6. Intangible assets (continued):

Chartwell completed its annual impairment assessment of the carrying value of licenses and goodwill which are classified as intangible assets with indefinite useful lives. The impairment assessment on the carrying value of licenses was completed in November and for goodwill was completed in December for the years ended December 31, 2022 and 2021. These intangible assets do not generate cash inflows that are largely independent of those of other assets and Chartwell completed the assessment of the recoverable amount of these intangible assets by comparing the fair value less costs of disposal of the related CGUs containing these intangible assets determined using the higher value in use (through either the direct capitalization method or appraised values), to their carrying values. The direct capitalization method divides the estimated stabilized net operating income by an appropriate market capitalization rate. The key assumptions used in the impairment assessment include capitalization rate of 6.50% for goodwill. The capitalization rates used were derived from a combination of third-party information and the observation of industry trends. The licenses were valued higher by appraisals which indicated the value of the license in excess of their carrying value. Chartwell determined that the fair value less costs of disposal exceeded the carrying value of the CGUs for the years ended December 31, 2022 and 2021.

7. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

| | 2022 | 2021 |
|---|-----------|-----------|
| Opening Balance | \$ 28,907 | \$ 35,542 |
| Capital funding received | (6,746) | (6,635) |
| Transfer to assets held for sale ⁽¹⁾ | (22,161) | – |
| Closing Balance | \$ – | \$ 28,907 |
| Current | \$ – | \$ 6,746 |
| Non-current | – | 22,161 |
| | \$ – | \$ 28,907 |

⁽¹⁾ As at December 31st 2022, assets held for sale includes \$22,161 of capital funding receivable (note 18).

CHARTWELL RETIREMENT RESIDENCES

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

7. Capital funding receivable (continued):

The capital funding receivable of \$22,161 (2021 - \$28,907) represents the present value of the funding receivable from the Government of Ontario in respect of 16 long-term care homes. The weighted average remaining term of this funding is approximately 3.6 years. The discount rate used on the receivables above is based on applicable Ontario Government Bond Rates. The receipt of funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care homes for the remaining period. During 2022, capital funding receipts amounted to \$7,913 (2021 - \$8,118) of which \$1,167 (2021 - \$1,483) was recorded as interest income and \$6,746 (2021 - \$6,635) as a reduction of capital funding receivable.

8. Leases:

As at December 31, 2022, Chartwell has right-of-use assets in respect of land, office space and equipment leases totalling \$10,554 (2021 - \$16,708) with remaining lease terms ranging from 2 to 56 years (note 5). Lease obligations related to these right-of-use assets totalled \$8,316 (2021 - \$12,560), of which \$843 (2021 - \$975) was classified current and \$7,473 (2021 - \$11,585) classified non-current as at December 31, 2022. Chartwell generally does not include purchase, extension or termination options in its leases, other than extension options for land leases that support properties with lengthy useful lives.

The following table details the contractual undiscounted cash flow on the lease payments for the right-of-use assets:

| | |
|----------------------------|------------------|
| Less than one year | \$ 1,004 |
| One to five years | 2,232 |
| More than five years | 16,135 |
| Total⁽¹⁾ | \$ 19,371 |

⁽¹⁾Includes one land lease with cumulative required undiscounted cash payments of \$17,366 which matures in 2079 (December 31, 2021 – Included three land leases with cumulative required undiscounted cash payments of \$23,815 which mature between 2044 and 2079).

CHARTWELL RETIREMENT RESIDENCES

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

9. Trade and other receivables:

| | 2022 | 2021 |
|------------------------------|------------------|------------------|
| Residents | \$ 1,987 | \$ 1,415 |
| Related party | 3,555 | 2,803 |
| Insurance recoverables | 1,474 | 932 |
| Government grants receivable | 1,951 | 1,823 |
| Other | 11,498 | 11,695 |
| | <u>\$ 20,465</u> | <u>\$ 18,668</u> |

Resident receivables balance at December 31, 2022 is net of an allowance for expected credit losses of \$2,006 (2021 - \$1,762).

Related party receivables are management fees and other receivables outstanding from joint ventures and properties managed by Chartwell.

Chartwell's direct operating expenses have been reduced by government grants for eligible expenditures of \$3,975 for the year ended December 31, 2022 (2021 - \$21,724) and general, administrative and trust expenses have been reduced by government grants for eligible expenditures of \$86 for the year ended December 31, 2022 (2021 - \$1,468).

10. Other assets:

| | 2022 | 2021 |
|------------------------------------|------------------|------------------|
| Prepaid expenses and deposits | \$ 16,035 | \$ 15,760 |
| Interest rate swaps ⁽¹⁾ | 8,973 | 662 |
| Related party lease receivable | 5,707 | 3,301 |
| Other assets | 4,160 | 6,873 |
| Restricted cash | 972 | 860 |
| Inventory | 955 | 1,239 |
| | <u>\$ 36,802</u> | <u>\$ 28,695</u> |
| Current | \$ 27,829 | \$ 25,964 |
| Non-current | 8,973 | 2,731 |
| | <u>\$ 36,802</u> | <u>\$ 28,695</u> |

⁽¹⁾ This includes fair value of interest rate swap related to mortgage payable of \$4,827 (December 31, 2021 \$662) and to term loans of \$4,146 (December 31, 2021- nil) (note 13 and 15).

CHARTWELL RETIREMENT RESIDENCES

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

11. Loans receivable:

Loans receivable are due from Batimo, mature between 2023 and 2024, bear interest at a rate of 10%, and are secured by first and second charges on Batimo's interests in certain operating and development seniors' housing projects and vacant land, as well as by Batimo's corporate guarantee and contain certain cross-collateralization and cross-default provisions.

Loan receivables are measured at FVTPL and are considered Level 3 in the fair value hierarchy.

On April 14, 2021, a mezzanine loan of \$ 3,969 was settled upon the acquisition of Chartwell Le Teasdale II (note 4).

| | 2022 | 2021 |
|-------------|----------|----------|
| Current | \$ 4,183 | – |
| Non-current | 3,826 | 8,009 |
| | \$ 8,009 | \$ 8,009 |

CHARTWELL RETIREMENT RESIDENCES

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

12. Joint arrangements:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The following are Chartwell's joint arrangements as at December 31, 2022:

| Joint arrangements | Number of properties | Chartwell ownership | Joint arrangement type | Consolidation method |
|---|----------------------|---------------------|------------------------------|----------------------|
| Chartwell-Welltower Landlord ⁽¹⁾ | 37 | 50% | Joint operation | Proportionate |
| Chartwell-Welltower Operator ⁽¹⁾ | 37 | 50% | Joint venture ⁽²⁾ | Equity |
| Chartwell Le St-Gabriel Landlord ⁽¹⁾ | 1 | 42.5% | Joint operation | Proportionate |
| Chartwell Le St-Gabriel Operator ⁽¹⁾ | 1 | 42.5% | Joint venture ⁽²⁾ | Equity |
| Chartwell Le Teasdale I | 1 | 42.5% | Joint operation | Proportionate |
| Chartwell Le Teasdale II | 1 | 42.5% | Joint operation | Proportionate |
| Batimo | 3 | 85% | Joint operation | Proportionate |
| Chartwell Oakville Retirement Residence | 1 | 50% | Joint venture ⁽²⁾ | Equity |
| Chartwell Constantia Retirement Residence | 1 | 50% | Joint venture ⁽²⁾ | Equity |
| Chartwell Riverside Retirement Residence | 1 | 50% | Joint operation | Proportionate |
| Chartwell Churchill House Retirement Residence | 1 | 50% | Joint operation | Proportionate |
| The Sumach by Chartwell | 1 | 45% | Joint operation | Proportionate |
| Kingsbridge Retirement Community | 1 | 60% | Joint venture ⁽²⁾ | Equity |
| Pickering Project ⁽³⁾ | 1 | 90% | Joint operation | Proportionate |

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

⁽²⁾ These joint arrangements have been structured through separate legal vehicles.

⁽³⁾ Property under development

CHARTWELL RETIREMENT RESIDENCES

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

12. Joint arrangements (continued):

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

(a) Joint operations:

At December 31, 2022, Chartwell has an interest in a number of joint operations, which have been accounted for under the proportionate consolidation method. The following table summarizes financial information in respect Chartwell's interests in joint operations, which have been accounted for under the proportionate consolidation method. This financial information is included line by line in the consolidated financial statements at Chartwell's share:

| | 2022 | 2021 |
|--------------------------|-------------------|-------------------|
| Current assets | \$ 49,506 | \$ 34,585 |
| Non-current assets | 536,283 | 547,297 |
| Total assets | \$ 585,789 | \$ 581,882 |
| Current liabilities | \$ 65,681 | \$ 80,093 |
| Non-current liabilities | 394,618 | 372,728 |
| Total liabilities | \$ 460,299 | \$ 452,821 |
| Total revenue | \$ 59,054 | \$ 60,283 |
| Total expenses | \$ (54,355) | \$ (52,747) |

CHARTWELL RETIREMENT RESIDENCES

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

12. Joint arrangements (continued):

(b) Joint ventures:

The following tables summarize the information about Chartwell's investment in joint ventures, which have been accounted for under the equity method, excluding lease assets and related lease obligations.

| | 2022 | 2021 |
|--|----------|----------|
| Contributions to joint ventures | \$ 8,453 | \$ 3,652 |
| Distributions received from joint ventures | (1,150) | (3,419) |

| | 2022 | 2021 |
|--|-----------|-----------|
| Cash and cash equivalents | \$ 8,175 | \$ 5,123 |
| Trade and other receivables | 14,119 | 13,619 |
| Other assets | 6,037 | 3,057 |
| Current assets | 28,331 | 21,799 |
| PP&E and intangible assets | 55,485 | 56,278 |
| Total assets | \$ 83,816 | \$ 78,077 |
| Accounts payable and other liabilities | \$ 18,746 | \$ 16,772 |
| Mortgages payable - current | 228 | 219 |
| Current liabilities | 18,974 | 16,991 |
| Mortgages payable - non-current | 51,895 | 52,132 |
| Total liabilities | \$ 70,869 | \$ 69,123 |
| Net investment in joint ventures | \$ 12,947 | \$ 8,954 |

| | 2022 | 2021 |
|---|------------|------------|
| Revenue | \$ 116,207 | \$ 110,139 |
| Direct property operating expense | (82,534) | (75,337) |
| Lease expense | (35,408) | (37,358) |
| Finance cost | (1,818) | (1,884) |
| Depreciation and amortization | (2,808) | (4,630) |
| Change in fair value of financial instruments and foreign exchange gains (losses) | 3,031 | 642 |
| Other Income | 21 | 52 |
| Chartwell's share of net loss from joint ventures | \$ (3,309) | \$ (8,376) |

CHARTWELL RETIREMENT RESIDENCES

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

12. Joint arrangements (continued):

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts payable and receivable, lease revenue from joint ventures, lease expense and in management fee revenue, as applicable. As of December 31, 2022, \$2,791 (2021 - \$1,972) of Chartwell's accounts receivable and \$12,617 (2021 - \$12,369) of Chartwell's accounts payable relate to its investment in joint ventures. For the year ended December 31, 2022, \$5,945 (2021 - \$7,453) of Chartwell's management fees were related to its investment in joint ventures.

Chartwell and Welltower (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 37 properties. Chartwell and Welltower each own a 42.5% beneficial interest and Batimo owns 15% beneficial interest in the real estate and are each obligated for the related mortgages for Chartwell Le St-Gabriel Landlord. Chartwell's interests in these properties are accounted for as joint operations under IFRS 11. Chartwell's 50% interest in the operations of the 37 properties (collectively referred to as "Chartwell-Welltower Operator") and Chartwell's 42.5% interest in Chartwell Le St-Gabriel Operator are held through separate legal entities, which are accounted for as joint ventures using the equity method under IFRS 11.

Chartwell-Welltower Operator and Chartwell Le St-Gabriel Operator have leased the real estate from Chartwell-Welltower Landlord and Chartwell Le St-Gabriel Landlord, respectively. The terms of these leases are for three-year periods, with automatic renewals as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's share of the landlords' lease receipts, \$35,408 for the year ended December 31, 2022 (2021 - \$37,358), is reported as lease revenue and is included in lease revenue from joint ventures. The lease expenses for Chartwell-Welltower Operator and Chartwell Le St-Gabriel Operator are included in the share of net income from joint ventures.

In addition, Chartwell and Welltower each own a 42.5% interest in Chartwell Le Teasdale I and Chartwell Le Teasdale II and a 45% interest each in The Sumach by Chartwell. Chartwell directly holds its interest in the real estate and related mortgage, and operations for these residences which are accounted for as joint operations (proportionately consolidated).

CHARTWELL RETIREMENT RESIDENCES

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

13. Mortgages payable:

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Mortgage principal balance | \$ 1,701,668 | \$ 1,904,057 |
| Mark-to-market adjustments on assumed mortgages | 2,265 | 5,412 |
| Financing costs ⁽¹⁾ | (46,552) | (48,269) |
| | \$ 1,657,381 | \$ 1,861,200 |
| Current | \$ 191,357 | \$ 301,594 |
| Non-current | 1,466,024 | 1,559,606 |
| | \$ 1,657,381 | \$ 1,861,200 |

⁽¹⁾ Includes financing costs with respect to the credit facilities of \$nil as at December 31, 2022 (2021 - \$3,321).

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about Chartwell's exposure to interest rates and liquidity risks, see note 23. The mortgages payable as at December 31, 2022 are as follows:

| | Regular principal payments | Principal due on maturity | Total debt |
|------------|----------------------------------|------------------------------|---------------------|
| 2023 | \$ 73,472 | \$ 121,531 | \$ 195,003 |
| 2024 | 66,539 | 229,862 | 296,401 |
| 2025 | 60,307 | 75,284 | 135,591 |
| 2026 | 57,340 | 81,845 | 139,185 |
| 2027 | 52,899 | 105,410 | 158,309 |
| 2028 | 47,793 | 166,161 | 213,954 |
| 2029 | 38,543 | 90,382 | 128,925 |
| 2030 | 30,921 | 70,721 | 101,642 |
| 2031 | 23,093 | 94,588 | 117,681 |
| 2032 | 16,770 | 106,375 | 123,145 |
| 2033 | 12,077 | 13,078 | 25,155 |
| 2034 | 10,157 | 1,621 | 11,778 |
| 2035 | 9,755 | — | 9,755 |
| 2036 | 9,044 | 6,173 | 15,217 |
| Thereafter | 11,122 | 18,805 | 29,927 |
| | \$ 519,832 | \$ 1,181,836 | \$ 1,701,668 |

CHARTWELL RETIREMENT RESIDENCES

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

13. Mortgages payable (continued):

| | 2022 | 2021 |
|--------------------------------|--|---|
| Mortgages at fixed rates: | | |
| Mortgages (principal) | \$ 1,668,444 | \$1,856,024 |
| Interest rates | 1.31% to 5.68% | 1.31% to 7.85% |
| Weighted average interest rate | 3.16% | 3.30% |
| Mortgages at variable rates: | | |
| Mortgages (principal) | \$33,224 | \$48,033 |
| Interest rates | Bankers acceptance Plus 0.975% to higher of Prime plus 0.55% or 3.25% | Bankers acceptance 0.975% to higher of Prime plus 0.55% or 3.25% |
| Weighted average interest rate | 5.68% | 2.13% |
| Blended weighted average rate | 3.21% | 3.27% |

Included in mortgages at fixed rates above, are mortgages totaling \$83,330 (2021 - \$84,527) with interest rates fixed through interest rate swaps with an equivalent notional value, maturing between 2024 and 2027. The swaps have a fair value asset of \$4,827 (December 31, 2021 - \$662) included in other assets (note 10) and a fair value liability of \$nil (December 31, 2021 - \$435) included in accounts payable and other liabilities (note 17). The swaps are considered Level 2 in the fair value hierarchy.

Under the terms of the mortgages payable, Chartwell is required to meet certain financial covenants. These covenants among others include debt service coverage ratios and in certain cases limitations on the amounts of unitholder distributions that can be paid. Chartwell was in compliance with these financials covenants as at December 31, 2022.

On December 5, 2015, Chartwell entered into a large borrower agreement ("LBA") with CMHC. The LBA provides among other things, the cross-collateralization of mortgage loans for Chartwell's largest CMHC insured lenders and contains certain financial and operating covenants. Chartwell was in compliance with these covenants as at December 31, 2022.

CHARTWELL RETIREMENT RESIDENCES

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

13. Mortgages payable (continued):

During the year ended December 31, 2021, the debt service coverage ratio covenants in respect of certain mortgages were amended to be reduced from 1.4x to 1.2x for the periods from the earlier of December 31, 2022 and the maturity date of the respective credit agreement. During the year ended December 31, 2022, these amendments were extended for the period ending at the earlier of December 31, 2024 and the maturity date of the respective credit agreement.

Chartwell also entered into an amending agreement in respect of its Large Borrower Agreement (“LBA”) with CMHC temporarily reducing the debt service coverage ratio requirements from 1.37x to 1.2x for the periods ending in the twelve months ending December 31, 2022. Subsequent to the year ended December 31, 2022, these amendments were extended for the periods ending at the earlier of June 30, 2024 and the maturity date of the applicable credit agreement.

During the year ended December 31, 2022, Chartwell entered into additional amending agreements to exclude incremental direct operating expenses directly related to the COVID-19 pandemic from January 1, 2022 to June 30, 2022 and net reimbursement of such expenses (if any) from the definition of Earnings before income tax, depreciation and amortization (“EBITDA”) or Adjusted Funds from Operations (“AFFO”) for the purpose of the calculation of the debt service coverage and AFFO payout ratios for the periods ending at the earlier of December 31, 2023 and the maturity of the applicable credit agreement.

Further amendments were made during the year ended December 31, 2022 for certain mortgages, and the LBA to exclude incremental direct operating expenses directly related to the COVID-19 pandemic from January 1, 2022 to March 31, 2023 and net reimbursement of such expenses (if any) from the definition of EBITDA or AFFO for the purpose of the calculation of the debt service coverage and AFFO payout ratios. These amendments are applicable for the periods ending at the earlier of December 31, 2023 and the maturity of the applicable credit agreement.

In addition, Chartwell amended the AFFO payout ratios in various agreements during the year ended December 31, 2022 for certain mortgages and subsequent to December 31, 2022 for the LBA. These amendments, applicable for the periods January 1, 2023, to December 31, 2023 were made to allow for the payment of cash distributions up to 115% of AFFO plus \$20.0 million from 100% of AFFO previously. These amendments are effective until December 31, 2023 for certain mortgages and until June 30, 2024 for the LBA.

CHARTWELL RETIREMENT RESIDENCES

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

14. Credit facilities:

The following tables summarize certain details of Chartwell's credit facilities as at December 31, 2022 and December 31, 2021:

| December 31, 2022 | Maximum capacity | Available capacity | Principal amounts outstanding | Utilized for letters of credit | Available to be drawn | Maturity date |
|------------------------------|---------------------|-----------------------|-------------------------------------|--------------------------------------|--------------------------|---------------|
| Secured credit facility | \$ 300,000 | \$ 226,698 | \$(184,000) | \$ (6,273) | \$ 36,425 | May 29, 2024 |
| Unsecured credit facility | 100,000 | 100,000 | — | — | 100,000 | May 29, 2024 |
| Total | \$ 400,000 | \$ 326,698 | \$(184,000) | \$ (6,273) | \$ 136,425 | |

| December 31, 2021 | Maximum capacity | Available capacity | Principal amounts outstanding | Utilized for letters of credit | Available to be drawn | Maturity date |
|------------------------------|---------------------|-----------------------|-------------------------------------|--------------------------------------|--------------------------|---------------|
| Secured credit facility | \$ 300,000 | \$ 249,915 | \$ — | \$ (6,466) | \$ 243,449 | May 29, 2024 |
| Unsecured credit facility | 100,000 | 100,000 | — | — | 100,000 | May 29, 2024 |
| Total | \$ 400,000 | \$ 349,915 | \$ — | \$ (6,466) | \$ 343,449 | |

Available capacity for the secured credit facility 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 the secured collateral, the associated occupancy rates of the property, property valuations and mortgageability amounts determined on the basis of net operating income (as defined in the credit agreement) for the previous four quarters.

Available capacity for the unsecured credit facility is determined by a minimum ratio of the unencumbered property asset value to unsecured indebtedness (as defined in the credit agreement) of 1.3:1. The value of the unencumbered assets is based on third party appraisals that are dated no longer than two years from the applicable determination date.

Financing costs, which have been recorded as a reduction of the amounts outstanding under the credit facilities, as at December 31, 2022 were \$2,766 (December 31, 2021 - \$3,321 included in mortgages payable as financing costs (note 13)).

CHARTWELL RETIREMENT RESIDENCES

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

14. Credit facilities (continued):

The amounts outstanding on the secured credit facility bear interest at the bank's prime rate plus 1.15% or banker's acceptance rate plus 2.15% based on Chartwell's current credit rating. The secured credit facility is secured by certain unencumbered properties and by second-ranked charges on specific properties. The amounts outstanding on the unsecured credit facility bear interest at the bank's prime rate plus 1.20% or banker's acceptance rate plus 2.20% based on Chartwell's current credit rating.

The secured and unsecured credit facilities are subject to various financial covenants including among others, debt service coverage ratio, secured indebtedness percentage ratio, minimum equity requirements and limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders. In addition, the unsecured credit facility is subject to the minimum unencumbered asset ratio covenant. Chartwell was in compliance with these financial covenants as at December 31, 2022.

During the year ended December 31, 2022, the debt service coverage ratio covenants of the secured and unsecured credit facilities were amended to be reduced from 1.4x to 1.2x until May 29, 2024. During the year ended December 31, 2022, Chartwell entered into additional amending agreements to exclude incremental direct operating expenses directly related to the COVID-19 pandemic from January 1, 2022 to March 31, 2023 and net reimbursement of such expenses (if any) from the definition of EBIDTA or AFFO for the purpose of the calculation of our debt service coverage and AFFO payout ratios for the periods ending on or before December 31, 2023.

During the year ended December 31, 2022, Chartwell entered into additional agreements amending the AFFO payout ratios applicable for the periods January 1, 2023, to December 31, 2023, to allow for the payment of cash distributions up to 115% of AFFO plus \$20.0 million from 100% of AFFO previously.

CHARTWELL RETIREMENT RESIDENCES

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

15. Term loans:

The following tables detail the outstanding principal amounts and the carrying value of Chartwell's secured and unsecured term loans at December 31, 2022 and at December 31, 2021:

| December 31, 2022 | Outstanding principal | Financing costs, net | Carrying value | Interest rate | Maturity date |
|---------------------|-----------------------|----------------------|----------------|---------------|---------------|
| Unsecured term loan | \$ 125,000 | \$ (286) | \$ 124,714 | 3.95% | May 31, 2024 |
| Secured term loan | 13,600 | \$ (79) | \$ 13,521 | 4.44% | May 19, 2027 |
| Total | 138,600 | (365) | 138,235 | | |

| December 31, 2021 | Outstanding principal | Financing costs, net | Carrying value | Interest rate | Maturity date |
|---------------------|-----------------------|----------------------|----------------|---------------|---------------|
| Unsecured term loan | \$ 125,000 | \$ (291) | \$ 124,709 | 3.70% | May 31, 2024 |
| Total | 125,000 | \$ (291) | \$ 124,709 | | |

The term loans are fixed through interest rate swap contracts. The swaps have a fair value asset of \$4,146 (2021 – nil) included in other assets and a fair value liability of nil (2021 - \$1,765) included in accounts payable other accrued liabilities. The swaps are considered level 2 in the fair value hierarchy.

On May 19, 2022 Chartwell entered into a \$13,600 secured term loan agreement with a Canadian chartered bank, with covenants generally consistent with the secured credit facility (note 14).

Based on the term loan agreement related to the \$125,000 unsecured term loan, Chartwell is required to meet certain financial covenants. These covenants among others include debt service coverage ratio, secured indebtedness percentage ratio, minimum equity requirements, minimum unencumbered asset ratio, limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders. During the year ended December 31, 2022, the debt service coverage ratio covenant of the term loan was amended to be reduced from 1.4x to 1.2x for the periods ending before May 31, 2024, the maturity date.

During the year ended December 31, 2022, Chartwell entered into additional amending agreements to exclude incremental direct operating expenses directly related to the COVID-19 pandemic from January 1, 2022 to March 31, 2023 and net reimbursement of such expenses (if any) from the definition of EBIDTA or AFFO for the purpose of the calculation of our debt service coverage and AFFO payout ratios for the periods ending on or before December 31, 2023.

CHARTWELL RETIREMENT RESIDENCES

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

15. Term loans (continued):

During the year ended December 31, 2022, Chartwell entered into additional agreements amending the AFFO payout ratios applicable for the periods January 1, 2023, to December 31, 2023, to allow for the payment of cash distributions not to exceed 115% of AFFO plus \$20.0 million from 100% of AFFO previously.

Chartwell was in compliance with these financials covenants as at December 31, 2022.

16. Senior unsecured debentures:

The following tables detail the outstanding principal amounts and the carrying value of Chartwell's senior unsecured debentures at December 31, 2022 and at December 31, 2021:

| December 31, 2022 | Date issued | Outstanding principal | Financing costs, net | Carrying value | Redemption date ⁽¹⁾ | Due date |
|-------------------|----------------|-----------------------|----------------------|-------------------|--------------------------------|-------------------|
| 3.786% Series A | June 9, 2017 | \$ 200,000 | \$ (223) | \$ 199,777 | October 11, 2023 | December 11, 2023 |
| 4.211% Series B | April 27, 2018 | 150,000 | (323) | 149,677 | February 25, 2025 | April 28, 2025 |
| Total | | \$ 350,000 | \$ (546) | \$ 349,454 | | |
| Current | | | | | | \$ 199,777 |
| Non-current | | | | | | 149,677 |
| | | | | | | \$ 349,454 |

⁽¹⁾ The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to the redemption date.

| December 31, 2021 | Date issued | Outstanding principal | Financing costs, net | Carrying value | Redemption date ⁽¹⁾ | Due date |
|-------------------|----------------|-----------------------|----------------------|-------------------|--------------------------------|-------------------|
| 3.786% Series A | June 9, 2017 | \$ 200,000 | \$ (466) | \$ 199,534 | October 11, 2023 | December 11, 2023 |
| 4.211% Series B | April 27, 2018 | 150,000 | (467) | 149,533 | February 25, 2025 | April 28, 2025 |
| Total | | \$ 350,000 | \$ (933) | \$ 349,067 | | |

⁽¹⁾ The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to the redemption date.

Under the terms of the debentures, Chartwell is required to meet certain financial covenants. These covenants include required interest coverage ratio, indebtedness percentage ratio and unencumbered asset ratio. Chartwell was in compliance with these financials covenants as at December 31, 2022.

CHARTWELL RETIREMENT RESIDENCES

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

17. Accounts payable and other liabilities:

| | Note | December 30, 2022 | December 31, 2021 |
|--|------|----------------------|----------------------|
| Accounts payable and accrued liabilities | | \$ 177,101 | \$ 163,379 |
| Resident deposits | | 4,651 | 3,664 |
| Deferred revenue | | 86 | 640 |
| Deferred Trust Units ("DTU") | (a) | 10,525 | 12,939 |
| Restricted Trust Units ("RTU") | (b) | 3,495 | 3,914 |
| EUPP option component | (c) | 5,336 | 9,915 |
| Interest rate swaps | | - | 2,200 |
| | | \$ 201,194 | \$ 196,651 |
| Current | | \$ 199,818 | \$ 194,886 |
| Non-current | | 1,376 | 1,765 |
| | | \$ 201,194 | \$ 196,651 |

CHARTWELL RETIREMENT RESIDENCES

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

17. Accounts payable and other liabilities (continued):

(a) DTU Plan:

Chartwell provides a DTU Plan for its non-management directors. The plan entitles directors, at their option, to receive all, or any portion of their directors' fees in the form of DTUs. The number of DTUs issued is based on the fair market value of Chartwell Trust Units, as defined in the plan, on the issue date.

The DTUs earn additional DTUs related to distributions that would otherwise have been paid if Trust Units, as opposed to DTUs, had been issued on the date of the grant. The number of DTUs issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. DTUs cannot be distributed to the directors until after they retire from the Board of Trustees.

The DTU fair value is determined using the market price for listed Trust Units since there is a one-for-one conversion feature. The market price of Trust Units as at December 31, 2022 was \$8.44 (2021 - \$11.82). The liability is remeasured to fair value at each reporting date until the liability is settled and is considered Level 2 in the fair value hierarchy. The non-cash compensation expense attributable to DTUs is included in general, administrative and trust expenses and subsequent fair value changes are included in fair value of financial instruments and foreign exchange gains (losses).

| | Units outstanding | Amount |
|--|----------------------|-----------|
| Balance, December 31, 2020 | 977,742 | \$ 10,941 |
| Units granted | 65,143 | 796 |
| Change in fair value and distributions | 51,794 | 1,202 |
| Balance, December 31, 2021 | 1,094,679 | 12,939 |
| Units granted | 86,043 | 859 |
| Change in fair value and distributions | 66,487 | (3,273) |
| Balance, December 31, 2022 | 1,247,209 | \$ 10,525 |

CHARTWELL RETIREMENT RESIDENCES

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

17. Accounts payable and other liabilities (continued):

(b) RTU Plan:

Under the terms of the RTU Plan, qualified employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash ("RTU payout"). The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. The value of outstanding RTUs is recognized as compensation expense over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is remeasured to fair value at each reporting date until the liability is settled. The amount of RTU payout to certain participants is also dependent on the extent to which Chartwell has achieved certain targets over a three-year period subject to certain conditions and is also subject to the discretion of the Board of Trustees. The RTU plan is considered Level 2 in the fair value hierarchy.

During the year ended December 31, 2022, 379,985 notional Trust Units were granted (2021 - 355,856), 94,414 notional Trust units were cancelled (2021 - 32,632), 54,586 notional Trust units were issued in regard to distributions (2021 - 39,415), and 169,841 notional Trust units vested and were paid out (2021 - 294,999). At December 31, 2022, 888,758 notional Trust Units remained outstanding (2021 - 718,444). The liability is measured at fair value based on the market price for Trust Units at each reporting period until settlement. RTU plan is considered Level 2 in the fair value hierarchy. The compensation expense attributable to the RTU Plan of \$1,216 for the year ended December 31, 2022 (2021 - \$2,957) is included in direct property operating and general, administrative and trust expenses.

(c) EUPP option component:

The description of the EUPP is included in note 21(b). The fair value of the EUPP option component is recognized as an expense with a corresponding increase in liability over the employee service period. The liability is remeasured at each reporting date and at settlement date and is considered a Level 3 in the fair value hierarchy. Upon initial recognition the expense is recognized in general, administrative and trust expenses and subsequent changes in fair values are recognized in change in fair values of financial instruments and foreign exchange gains (losses).

CHARTWELL RETIREMENT RESIDENCES

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

17. Accounts payable and other liabilities (continued):

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

| | December 31, 2022 | December 31, 2021 |
|---------------------|----------------------|----------------------|
| Expected volatility | 23.84% - 28.84% | 24.81% - 29.81% |
| Risk-free rate | 3.66% - 4.36% | 1.75% - 2.03% |
| Distribution yield | 7.49% - 9.72% | 5.52% - 6.81% |

18. Assets and liabilities held for sale and discontinued operations:

On March 31, 2022, Chartwell entered into a definitive agreement to sell sixteen long-term care homes in Ontario one of which has an adjacent retirement residence, thereby ceasing the operation of its long term care segment. Assuming a closing date of June 30, 2023, the sale price is \$379,200 including estimated capital funding receivables of \$19,200 as at June 30, 2023. The purchase price will be reduced through the assumption of \$122,014 of estimated mortgage debt as at June 30, 2023 by the purchaser. The remainder is subject to additional adjustments in accordance with the terms of the purchase and sale agreement. The remaining balance will be paid in cash, a portion of which will be used to repay the remaining estimated mortgage debt of \$14,472 as at June 30, 2023, which is not being assumed by the purchaser. In addition, certain other liabilities, including contingent liabilities, associated with these long-term care homes will remain with Chartwell post closing. This transaction is subject to receipt of regulatory approvals and other customary closing conditions. The transfer of operations and the related assets is anticipated to close in late Q2 2023 or early Q3 2023. This transaction is expected to result in \$34,000 of SIFT tax payable. The comparative consolidated financial statements of net income and comprehensive income has been re-presented to show the discontinued operations separately from continuing operations.

Upon closing of the sale, Chartwell will continue to own two long term care homes in Ontario. These homes are not significant to Chartwell's portfolio, will be managed by the purchaser and will be reported within the retirement residences segment which also includes two retirement residences with 167 long term care beds in British Columbia.

Chartwell holds licenses related to each of its long-term care homes which are included in assets held for sale. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2022, Chartwell received \$160,525 (2021 - \$141,580) in funding in respect of these licenses excluding incremental COVID-19 funding, which has been recorded as resident revenue, interest income and capital funding receivable, as applicable.

CHARTWELL RETIREMENT RESIDENCES

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

18. Assets and liabilities held for sale and discontinued operations (continued):

The assets and liabilities of the long term care homes that are held for sale as at December 31, 2022 are as follows:

| | Total |
|--|-------------------|
| Other assets | \$ 3,264 |
| Capital funding receivable (note 7) | 22,161 |
| Intangible assets | 40,785 |
| PP&E | 133,260 |
| Total assets held for sale | \$ 199,470 |
| Accounts payable and other liabilities related to assets held for sale | \$ 4,228 |
| Current mortgages payable related to assets held for sale | 136,464 |
| Liabilities related to assets held for sale | 140,692 |
| Mortgages payable related to assets held for sale | 7,939 |
| Total liabilities and mortgages related to assets held for sale | \$ 148,631 |

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

| | 2022 | Year Ended December 31, 2021 |
|--|------------------|------------------------------------|
| Resident revenue | \$ 252,614 | \$ 227,252 |
| Interest income | 1,167 | 1,483 |
| Direct property operating expenses | (220,729) | (205,831) |
| Finance costs | (8,148) | (8,524) |
| Other expense ⁽¹⁾ | (743) | — |
| Depreciation of PP&E | (1,816) | (9,255) |
| Amortization of intangible assets | (202) | (975) |
| Net income from discontinued operations | \$ 22,143 | \$ 4,150 |

(1) Other expenses include transaction costs related to the expected sale of the long term care operations.

CHARTWELL RETIREMENT RESIDENCES

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

18. Assets and liabilities held for sale and discontinued operations (continued):

| | Year Ended December 31 | |
|--|---------------------------|-----------|
| | 2022 | 2021 |
| Cash flows from discontinued operations: | | |
| Net cash from operating activities | \$ 24,253 | \$ 13,892 |
| Net cash used in financing activities | (3,623) | (8,341) |
| Net cash from investing activities | 402 | 1,712 |

Chartwell's maturities of major financial liabilities included in liabilities held for sale as at December 31, 2022:

| | Contractual Value | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter |
|----------------------------------|----------------------|-----------|-----------|----------|----------|----------|------------|
| Mortgages payable ⁽¹⁾ | \$ 142,076 | \$ 15,906 | \$ 42,222 | \$ 8,180 | \$ 4,381 | \$ 4,844 | \$ 66,543 |
| Lease obligations ⁽¹⁾ | 4,192 | 199 | 182 | 116 | 121 | 125 | 3,449 |
| Total maturities | \$ 146,268 | \$ 16,105 | \$ 42,404 | \$ 8,296 | \$ 4,502 | \$ 4,969 | \$ 69,992 |

⁽¹⁾ Reported as current liabilities.

CHARTWELL RETIREMENT RESIDENCES

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

19. Reconciliation of changes in liabilities arising from financing activities:

| | Mortgages payable | Term loans | Senior unsecured debentures | Total |
|---|-------------------|------------|-----------------------------|--------------|
| Balance, December 31, 2020 | \$ 1,882,235 | \$ 274,265 | \$ 348,681 | \$ 2,505,181 |
| Proceeds from financing | 138,808 | — | — | 138,808 |
| Repayments | (67,198) | (150,000) | — | (217,198) |
| Mortgages assumed by purchaser on dispositions (note 4) | (23,364) | — | — | (23,364) |
| Scheduled principal payments | (84,017) | — | — | (84,017) |
| Financing costs paid | (8,074) | (360) | — | (8,434) |
| Assumed on acquisition (note 4) | 18,668 | — | — | 18,668 |
| Amortization of financing costs and mark to market adjustments on assumed mortgages | 3,521 | 804 | 386 | 4,711 |
| Other | 621 | — | — | 621 |
| Balance, December 31, 2021 | 1,861,200 | 124,709 | 349,067 | 2,334,976 |
| Reclassifications liabilities held for sale | (144,403) | — | — | (144,403) |
| Proceeds from financing | 147,817 | 13,600 | — | 161,417 |
| Repayments | (164,244) | — | — | (164,244) |
| Mortgage assumed by purchaser on dispositions (note 5) | (26,102) | — | — | (26,102) |
| Mortgages repaid on dispositions (note 5) | (15,762) | — | — | (15,762) |
| Scheduled principal payments | (86,997) | — | — | (86,997) |
| Financing costs paid | (8,870) | (74) | 387 | (8,557) |
| Assumed on acquisition (note 4) | 86,218 | — | — | 86,218 |
| Amortization of financing costs and mark to market adjustments on assumed mortgages | 7,063 | — | — | 7,063 |
| Other | 1,461 | — | — | 1,461 |
| Balance, December 31, 2022 | \$ 1,657,381 | \$ 138,235 | \$ 349,454 | \$ 2,145,070 |

CHARTWELL RETIREMENT RESIDENCES

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

20. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability and are measured at fair value. Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. Distributions on Class B Units are reported as a finance cost on the statement of comprehensive income. Fair value is determined by using the market price for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy. The market price of Trust Units at December 31, 2022 was \$8.44 per unit (2021 - \$11.82 per unit). At December 31, 2022, 1,530,360 Class B units were outstanding (2021 - 1,530,360).

| | Units outstanding | Amount |
|----------------------------|----------------------|-----------|
| Balance, December 31, 2020 | 1,530,360 | \$ 17,125 |
| Change in fair value | – | 964 |
| Balance, December 31, 2021 | 1,530,360 | 18,089 |
| Change in fair value | - | (5,173) |
| Balance, December 31, 2022 | 1,530,630 | \$ 12,916 |

21. Trust Units and EUPP:

(a) Trust Units:

Chartwell is authorized to issue an unlimited number of Trust Units.

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

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

CHARTWELL RETIREMENT RESIDENCES

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

21. Trust Units and EUPP (continued):

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

The following Trust Units are issued and outstanding:

| | Number of Trust Units | Amount |
|---|--------------------------|--------------|
| Balance, December 31, 2020 | 214,078,721 | \$ 2,327,965 |
| Trust Units issued pursuant to public offering | 15,490,500 | 197,220 |
| Trust Units issued under DRIP | 1,610,154 | 19,430 |
| Trust Units released on settlement of EUPP receivable | 47,172 | 836 |
| Balance, December 31, 2021 | 231,226,547 | 2,545,451 |
| Trust Units issued under DRIP | 3,388,122 | 34,967 |
| Trust Units released on settlement of EUPP receivable | 137,940 | 2,620 |
| Balance, December 31, 2022 | 234,752,609 | \$ 2,583,038 |

On August 25, 2021, Chartwell completed a public offering of 15,490,500 Trust Units at \$13.00 per Trust Unit for gross proceeds of \$201,377. Underwriting commission and other offering related costs amounted to \$8,944, offset by a deferred tax asset of \$4,787.

CHARTWELL RETIREMENT RESIDENCES

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

21. Trust Units and EUPP (continued):

(b) Trust Units issued under EUPP:

Chartwell has established an EUPP, under which the eligible participants may purchase Trust Units for a purchase price equal to the weighted average trading price of the units for 20 trading days preceding the date of issuance. Participants are required to pay interest on the unpaid balance of the purchase price at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time Trust Units under the EUPP are issued. All distributions on Trust Units under the EUPP are applied as payments, first of interest and then toward reduction of the principal of the EUPP receivable. Trust Units issued under the EUPP are held as security for the outstanding EUPP receivable. Participants may prepay the principal at their discretion and receive the Trust Units. If a participant elects to withdraw from the plan without paying the balance of the EUPP receivable in full, Chartwell may elect to sell Trust Units issued under the EUPP in satisfaction of the outstanding EUPP receivable. Chartwell's recourse is limited to Trust Units it holds as security. On May 15, 2014, the EUPP was amended, such that the period for payment for the exercise of terms of the EUPP awards was extended from 10 to 20 years, for EUPP awards issued before April 1, 2014. Subsequent EUPP awards are limited to senior executives, continue to have 10-year terms and vest immediately.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the EUPP, of which 1,967,348 were available to be issued at December 31, 2022 (2021 - 2,148,137).

The following table summarizes Trust Units issued under the EUPP:

| | Number of Trust Units issued under EUPP | Amount |
|---|--|-----------|
| Balance, December 31, 2020 | 1,734,202 | \$ 20,311 |
| Trust Units issued under EUPP | 158,254 | 1,828 |
| Trust Units released on settlement of EUPP receivable | (47,172) | (547) |
| Balance, December 31, 2021 | 1,845,284 | 21,592 |
| Trust Units issued under EUPP | 180,789 | 2,200 |
| Trust Units released on settlement of EUPP receivable | (137,940) | (1,553) |
| Balance, December 31, 2022 | 1,888,133 | \$ 22,239 |

CHARTWELL RETIREMENT RESIDENCES

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

21. Trust Units and EUPP (continued):

The non-cash compensation expense attributable to the EUPP of \$541 for the year ended December 31, 2022 (2021 - \$473) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities (note 17). Trust Units issued under EUPP and EUPP receivable are recorded in unitholders' equity.

c) DRIP:

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%. On March 16, 2020, Chartwell announced temporary suspension of its DRIP program commencing after the distribution payable to unit holders of record at March 31, 2020. The unitholders enrolled in the DRIP program received distribution payments in cash. Effective with the distribution payable, June 15, 2021 to unitholders of record as at May 31, 2021, the DRIP was reinstated.

22. Segmented information:

Chartwell monitors and operates its retirement residences and long-term care homes separately. Where a retirement residence or long-term home provides more than one level of care, it has been designated to a segment according to the predominant level of care, type of licensing and funding and internal management responsibility. The Retirement Operations segment includes an interest in 160 retirement residences (2021 - 159) that Chartwell owns and operates in Canada. The retirement residences provide services to residents at rates set by Chartwell based on the services provided and market conditions. The Long-Term Care Operations segment represents the 20 long-term care homes (2021 - 20) in Ontario, one of which has an adjacent retirement residence. Admission and funding for the long-term care homes is overseen by local government agencies in each province.

The accounting policies of each of the segments are the same as those for Chartwell, except these segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column shows the adjustments to account for these joint ventures using the equity method, as applied in these condensed consolidated interim financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses. Chartwell has classified the Long-term Care segment as discontinued operations, however it continues to review the segment until the discontinuance is completed.

CHARTWELL RETIREMENT RESIDENCES

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

22. Segmented information (continued):

The measure of segment profit or loss is adjusted net operating income which is resident revenue less direct property operating expenses, including Chartwell's proportionate share of its joint ventures' revenue and direct property operating expenses, respectively.

| December 31, 2022 | | | | | | | | |
|---|--------------------------|---|------------------|----------------------|--------------|---------------------|--|------------|
| | Retirement Operations | Long Term Care Operations ⁽³⁾⁽⁴⁾ | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Elimination of discontinued operations | Total |
| Revenue: | | | | | | | | |
| Resident | \$ 743,045 | \$ 286,461 | \$ 1,029,506 | \$ – | \$ 1,029,506 | \$ (115,863) | \$ (252,614) | \$ 661,029 |
| Management and other fees | – | – | – | 10,364 | 10,364 | – | – | 10,364 |
| Lease revenue from joint ventures | – | – | – | – | – | 35,408 | – | 35,408 |
| Interest income | – | – | – | 2,702 | 2,702 | (344) | (1,167) | 1,191 |
| | 743,045 | 286,461 | 1,029,506 | 13,066 | 1,042,572 | (80,799) | (253,781) | 707,992 |
| Expenses: | | | | | | | | |
| Direct property operating | (515,423) | (252,544) | (767,967) | – | (767,967) | 82,534 | 220,729 | (464,704) |
| Adjusted net operating income ⁽¹⁾ | 227,622 | 33,917 | 261,539 | | | | | |
| Depreciation of PP&E | | | | | | | | (152,988) |
| Amortization of intangible assets | | | | | | | | (3,148) |
| Share of net loss from joint ventures | | | | | | | | (3,309) |
| General, administrative and trust | | | | | | | | (49,641) |
| Other income | | | | | | | | 70,623 |
| Finance costs | | | | | | | | (85,091) |
| Change in fair values of financial instruments and foreign exchange losses | | | | | | | | 21,785 |
| | | | | | | | | (201,769) |
| Profit before income taxes | | | | | | | | 41,519 |
| Deferred income tax expense | | | | | | | | (14,131) |
| Net loss from continuing operations | | | | | | | | |
| Net income from discontinued operations, net of income taxes | | | | | | | | 22,143 |
| Net Profit | | | | | | | | \$ 49,531 |
| Expenditures for non-current assets: | | | | | | | | |
| Acquisitions | \$ 233,433 | \$ 2 | \$ 233,435 | \$ – | \$ 233,435 | \$ – | \$ – | \$ 233,435 |
| Capital additions | 90,974 | 23,483 | 114,457 | 914 | 115,371 | (1,535) | (6,201) | 107,635 |

(1) Adjusted net operating income represents resident revenue less direct property operating expenses, including Chartwell's proportionate share of its joint ventures' resident revenue and direct property operating expenses and the results of the Long Term Care Operations segment which is discontinued.

(2) Items included under 'other' are not monitored at the segment level.

(3) Chartwell has classified this segment as discontinued operations however continues to review the segment until the discontinuance is completed.

(4) Upon closing of the sale, Chartwell will continue to own two long-term care homes which are not considered significant for the purposes of reporting as a separate operating segment. The segment will be considered disposed upon closing of the transaction and at that time these properties will be included in the retirement operations segment (note 18).

CHARTWELL RETIREMENT RESIDENCES

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

22. Segmented information (continued):

| December 31, 2021 | | | | | | | | |
|--|--------------------------|---|------------------|----------------------|------------|---------------------|--|------------|
| | Retirement Operations | Long Term ⁽³⁾⁽⁴⁾ Care Operations | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Elimination of Discontinued operations | Total |
| Revenue: | | | | | | | | |
| Resident Management and other fees | \$ 705,905 | \$ 259,255 | \$ 965,160 | \$ – | \$ 965,160 | \$ (109,933) | \$ (227,252) | \$ 627,975 |
| Lease revenue from joint ventures | – | – | – | 11,022 | 11,022 | – | – | 11,022 |
| Interest income | – | – | – | – | – | 37,358 | – | 37,358 |
| | – | – | – | 3,067 | 3,067 | (205) | (1,483) | 1,379 |
| | 705,905 | 259,255 | 965,160 | 14,089 | 979,249 | (72,780) | (228,735) | 677,734 |
| Expenses: | | | | | | | | |
| Direct property operating | (469,226) | (235,826) | (705,052) | – | (705,052) | 75,336 | 205,832 | (423,884) |
| Adjusted net operating income ⁽¹⁾ | 236,679 | 23,439 | 260,108 | | | | | |
| Depreciation of PP&E | | | | | | | | (151,127) |
| Amortization of intangible assets | | | | | | | | (6,734) |
| Share of net loss from joint ventures | | | | | | | | (8,376) |
| General, administrative and trust | | | | | | | | (44,364) |
| Other income | | | | | | | | 43,353 |
| Finance costs | | | | | | | | (80,931) |
| Change in fair values of financial instruments and foreign exchange losses | | | | | | | | 1,295 |
| | | | | | | | | (246,884) |
| Profit before income taxes | | | | | | | | 6,966 |
| Deferred income tax expense | | | | | | | | (984) |
| Net loss from continuing operations | | | | | | | | 5,982 |
| Net income from discontinued operations, net of income taxes | | | | | | | | 4,150 |
| Net loss | | | | | | | | \$ 10,132 |
| Expenditures for non-current assets: | | | | | | | | |
| Acquisitions | \$ 30,589 | \$ – | \$ 30,589 | \$ – | \$ 30,589 | \$ – | \$ – | \$ 30,589 |
| Capital additions | 104,647 | 19,132 | 123,779 | 1,430 | 125,209 | (1,599) | (4,069) | 119,541 |

⁽¹⁾ Adjusted net operating income represents resident revenue less direct property operating expenses, including Chartwell's proportionate share of its joint ventures' resident revenue and direct property operating expenses.

⁽²⁾ Items included under 'other' are not monitored at the segment level.

⁽³⁾ Chartwell has classified this segment as discontinued operations however continues to review the segment until the discontinuance is completed.

⁽⁴⁾ Upon closing of the sale, Chartwell will continue to own two long-term care homes which are not considered significant for the purposes of reporting as a separate operating segment. The segment will be considered disposed upon closing of the transaction and at that time these properties will be included in the retirement operations segment (note 18).

CHARTWELL RETIREMENT RESIDENCES

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

22. Segmented information (continued):

| 2022 | Retirement Operations | Long Term Care Operations | Segment Total | Other | Subtotal | Recon- ciliation | Discontinued operations | Total |
|-------------------|--------------------------|---------------------------------|------------------|-----------|--------------|---------------------|----------------------------|--------------|
| Total assets | \$ 3,192,133 | \$ 256,842 | \$ 3,448,975 | \$145,183 | \$ 3,594,158 | \$ (83,816) | \$ (199,470) | \$ 3,510,342 |
| Total liabilities | \$ 1,805,854 | \$ 214,858 | \$ 2,070,712 | \$790,696 | \$ 2,811,408 | \$ (70,868) | \$ (148,631) | \$ 2,740,540 |

| 2021 | Retirement Operations | Long-Term Care Operations | Segment total | Other | Subtotal | Recon- ciliation | Total |
|-------------------|--------------------------|---------------------------------|------------------|------------|--------------|---------------------|--------------|
| Total assets | \$ 3,048,507 | \$ 239,404 | \$ 3,287,911 | \$ 207,419 | \$ 3,495,330 | \$ (78,077) | \$ 3,417,253 |
| Total liabilities | \$ 1,838,028 | \$ 217,344 | \$ 2,055,372 | \$ 604,893 | \$ 2,660,265 | \$ (69,123) | \$ 2,591,142 |

The adjusted net operating income of the Retirement Operations is also reviewed by management at the geographic region level:

| 2022 | Ontario | Western Canada | Quebec | Total Retirement Operations |
|------------------------------------|------------|-------------------|------------|-----------------------------------|
| Resident revenue | \$ 386,554 | \$ 198,301 | \$ 158,190 | \$ 743,045 |
| Direct property operating expenses | (264,699) | (129,931) | (120,793) | (515,423) |
| Adjusted net operating income | \$ 121,855 | \$ 68,370 | \$ 37,397 | \$ 227,622 |

| 2021 | Ontario | Western Canada | Quebec | Total Retirement Operations |
|------------------------------------|------------|-------------------|------------|-----------------------------------|
| Resident revenue | \$ 361,178 | \$ 187,073 | \$ 157,654 | \$ 705,905 |
| Direct property operating expenses | (235,356) | (121,840) | (112,030) | (469,226) |
| Adjusted net operating income | \$ 125,822 | \$ 65,233 | \$ 45,624 | \$ 236,679 |

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management:

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

The carrying amounts and fair values of financial instruments, excluding loans receivable, interest rate swaps, liabilities related to Class B Units and income guarantees which are carried at fair value, are shown in the table below. The table below excludes cash and cash equivalents, restricted cash, trade and other receivables, capital funding receivable, accounts payable and other liabilities, and distributions payable, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value.

| | 2022 | | 2021 | |
|---|----------------|--------------|----------------|--------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial liabilities: | | | | |
| Financial liabilities recorded at amortized cost: | | | | |
| Mortgages payable | \$ 1,657,381 | \$ 1,622,776 | \$ 1,861,200 | \$ 1,950,405 |
| Term loans | 138,235 | 135,258 | 124,709 | 125,504 |
| Senior unsecured debentures | 349,454 | 341,278 | 349,067 | 353,049 |
| Credit facilities | 181,234 | 184,000 | - | - |

Fair value represents management's estimates of the fair market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective, involve uncertainties and are a matter of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

The fair value of mortgages payable is estimated by discounting the expected future cash outflows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2022, the mortgages payable were discounted using rates between 4.27% and 5.86% (2021 - 1.95% and 4.43%).

The fair value of the term loan is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2022, the term loan was discounted using a weighted average rate of 5.71% (2021 - 3.52%).

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management (continued):

The fair value of senior unsecured debentures is estimated by discounting the expected future cash outflows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2022, senior unsecured debentures were discounted using a rate of 5.86% (December 31, 2021 - 3.62%).

The fair value of the credit facility is estimated to be the amount drawn at December 31, 2022 as Chartwell has the ability to repay the outstanding balance any time.

As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair values of mortgages payable, term loans, senior unsecured debentures and credit facility are Level 2 in the fair value hierarchy.

(b) Financial risk management objectives and policies:

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

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

Management has updated its risk management policies and strategies for the current risks due to COVID-19 (note 1). These financial instrument risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine and other loans may experience financial difficulty and be unable to fulfill their contractual obligations. Exposure to credit risk relates primarily to cash on deposit included in cash and cash equivalents, resident receivables included in trade and other receivables, and loans receivable.

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

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management (continued):

The credit risk related to cash and cash equivalents is mitigated through entering into transactions with major Canadian financial institutions.

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

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

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

Chartwell adopted the practical expedient to determine ECL on trade and other receivables using a provision matrix based on historical credit loss experiences adjusted for current and forecasted future economic conditions to estimate lifetime ECL. At December 31, 2022, outstanding residents receivables were \$1,987 (2021 - \$1,415), net of ECL of \$2,006 (2021 - \$1,762).

(ii) Liquidity risk:

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

Liquidity risk is the risk that an entity is unable to fund its assets or meet its obligations as they come due.

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management (continued):

Liquidity risk is managed through cash flow forecasting. Management monitors forecasts of Chartwell's liquidity requirements to ensure it has sufficient financial resources to meet operational needs through maintaining sufficient cash and/or availability on the credit facilities and complying with its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment, takes into consideration current and projected macroeconomic conditions, the COVID-19 pandemic and associated uncertainties (note 1), Chartwell's cash collection efforts and debt financing plans. There is a risk that such liquidity forecasts may not be achieved, that covenant requirements of existing loan agreements are not met, and that currently available debt financing may no longer be available on terms and conditions that are favorable to Chartwell, or at all (note 1).

As at December 31, 2022, current liabilities totalled \$744,634, exceeding current assets of \$280,416, resulting in a working capital deficiency of \$464,218. Current liabilities includes an amount of \$191,357 of current mortgages payable, comprised of \$121,531 related to maturing balances which are expected to be renewed on maturity, \$69,826 related to regular principal payments and the balance of unamortized mark-to-market adjustments net of unamortized financing costs. In addition, as at December 31, 2022, current liabilities included \$199,777 of senior unsecured debentures maturing in December 2023. Chartwell expects to refinance the maturing debentures with new senior unsecured debentures, other unsecured or secured debt instruments or equity financing. Chartwell expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from property operations, (ii) property specific mortgages, (iii) term loans and (iv) secured and unsecured credit facilities, under which \$136,425 was available and undrawn at December 31, 2022 (note 14). In addition, the sale of long term care operations (note 18) and the forward sale of one long term care under redevelopment (note 5), ("LTC Transactions"), which are expected to occur in 2023, are expected to generate net proceeds of approximately \$268,200, subject to customary adjustments in accordance with the terms of the purchase and sale agreement which are expected to be used, subject to market conditions, to pay down our Credit Facilities. On closing of the LTC Transactions, Chartwell's unencumbered asset pool will decline by approximately \$49,900 and certain of the sold properties will be removed from the borrowing base collateral for the secured credit facility which will result in a reduction in availability on the secured credit facilities of approximately \$26,912.

Further, subject to market conditions, Chartwell may seek to raise funding through new senior unsecured debentures or equity financing and it may also continue to dispose of certain non-core assets to generate additional liquidity. The particular features and quality of the underlying assets and the debt and equity market conditions existing at the time of raising such financing may impact the ability and availability for financing.

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management (continued):

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

There is also a risk that the credit facilities will not be renewed or that the senior unsecured debentures may not be refinanced on terms and conditions acceptable to Chartwell or on any terms at all. Management mitigates this risk by looking at other lending options available to Chartwell.

These and other contractual obligations and contingencies, including those related to agreements with Batimo, are disclosed in note 31.

Chartwell's lending agreements include various cross-default provisions.

Chartwell, in its continuing operations, holds licenses related to each of its retained long-term care homes and in certain cases, retirement residences. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2022, Chartwell received \$58,732 (2021 - \$55,361) in funding in respect of these licenses excluding incremental COVID-19 funding, which has been recorded as resident revenue, interest income and capital funding receivable, as applicable.

Refer to note 31 for contractual maturities of Chartwell's major financial liabilities.

(iii) Market risk:

Chartwell is exposed to market risk, which is the risk arising from its financial instruments, principally related to interest rates and equity prices.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating-rate debt on an ongoing basis and its fixed-rate debt upon renewal. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible on renewal. It may also enter into derivative financial instruments from time to time to mitigate interest rate risk. Generally, Chartwell fixes the term of long-term debt within a range of 5 to 20 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate, long-term debt over time.

CHARTWELL RETIREMENT RESIDENCES

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

23. Financial instruments and financial risk management (continued):

At December 31, 2022, Chartwell's interest-bearing financial instruments were as follows:

| | Carrying amount | |
|-------------------------------------|-----------------|--------------|
| | 2022 | 2021 |
| Fixed-rate financial liabilities | \$ 2,157,044 | \$ 2,331,024 |
| Variable-rate financial liabilities | \$ 217,224 | \$ 48,033 |

An increase of 100-basis-points in interest rates at December 31, 2022 for the variable-rate financial instruments would decrease income before income taxes on an annualized basis by \$2,172 (2021 - \$480).

An increase of 100-basis-points in interest rates for the fixed rate mortgages maturing in 2023 would decrease income before income taxes by \$268 based on renewal dates and \$1,215 on an annualized basis for the year.

An increase of 100-basis-points in interest rates for the fixed rate unsecured debenture maturing in 2023 would decrease income before income taxes by \$115 based on the renewal date and \$2,000 on an annualized basis for the year.

CHARTWELL RETIREMENT RESIDENCES

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

24. Capital structure financial policies:

Chartwell's primary objectives in managing capital are:

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

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

Management defines capital as Chartwell's total unitholders' equity, Class B Units, current and non-current mortgage payable, senior unsecured debentures, term loans and borrowings under its credit facilities.

The Board of Trustees is responsible for overseeing Chartwell's capital management and does so through quarterly Trustees' meetings, annual budget reviews and regular reviews of financial information. The Board of Trustees also determines the level of any distributions to unitholders.

Chartwell's Declaration of Trust limits the ratio of indebtedness ("Indebtedness Ratio") that Chartwell can incur to 65% of adjusted gross book value ("GBV").

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

CHARTWELL RETIREMENT RESIDENCES

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

24. Capital structure financial policies (continued):

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

The following are the Indebtedness Ratios at December 31, 2022 and 2021:

| | 2022 | 2021 | Increase (decrease) |
|--------------------|-------|-------|------------------------|
| Indebtedness Ratio | 49.0% | 48.2% | 0.8% |

Chartwell's capital management is conducted in accordance with policies stated under the Declaration of Trust and requirements from certain of its lenders. Under the terms of Chartwell's loan agreements with these lenders, Chartwell is required to meet certain financial and non-financial covenants. As a result of the uncertainties described in note 1, Chartwell has proactively obtained amendments to its financing arrangements (note 13, 14 and 15), including amendments to reduce the minimum debt service covenants and exclude incremental pandemic related direct operating expenses, net of reimbursement (if any), in the calculation of EBIDTA and AFFO for the period from January 1, 2022 to March 31, 2023, for debt service coverage and AFFO payout ratios up to and including periods ending December 31, 2023. Chartwell also entered into agreements amending the AFFO payout ratios for the periods January 1, 2023 to December 31, 2023, to allow the payment of cash distributions up to 115% of AFFO plus \$20,000 from 100% of AFFO previously. There have been no other changes in Chartwell's capital management strategy during the year.

CHARTWELL RETIREMENT RESIDENCES

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

25. Revenue:

| | 2022 | 2021 |
|---------------------------------|------------|------------|
| Lease revenue ⁽¹⁾ | \$ 329,839 | \$ 323,850 |
| Services revenue ⁽²⁾ | 366,598 | 341,481 |
| Interest income | 1,191 | 1,381 |
| Management and other fees | 10,364 | 11,022 |
| Total revenue | \$ 707,992 | \$ 677,734 |

⁽¹⁾Includes resident lease revenue from retirement residence residents and lease revenue from the joint venture partners.

⁽²⁾Includes property services element from retirement residence residents in accordance with IFRS 15.

CHARTWELL RETIREMENT RESIDENCES

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

26. Personnel expenses:

The analysis of employee benefits expense for the years ended December 31, 2022 and 2021, included in profit or loss under direct property operating expenses and general, administrative and trust expenses, is as follows:

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Salaries and wages | \$ (357,651) | \$ (343,062) |
| Post-employment benefits (defined contribution plans) | (4,447) | (4,318) |
| Unit-based compensation | (2,497) | (4,202) |
| | <u>\$ (364,595)</u> | <u>\$ (351,582)</u> |

27. Other income (expense):

| | 2022 | 2021 |
|--|------------------|------------------|
| Transaction costs arising on acquisitions and dispositions | \$ (1,992) | \$ (1,374) |
| Impairment of PP&E | - | (850) |
| Other expense | (1,992) | (2,224) |
| Net gain on disposal of assets | 71,751 | 44,840 |
| Other income | 864 | 737 |
| Other income | 72,615 | 45,577 |
| Other income | <u>\$ 70,623</u> | <u>\$ 43,353</u> |

On December 7, 2022, Chartwell completed the sale of two long term care homes in British Columbia (note 5) and recognized a gain on sale of assets totaling \$69,889.

On April 14, 2021, Chartwell completed the sale of half of its 85% interest (42.5%) of Chartwell Le Teasdale I (note 5) and recognized a gain on sale of assets totaling \$5,915.

On December 1, 2021, Chartwell completed the sale of four retirement residences located in Ontario (note 5) and recognized a gain on sale of assets totaling \$36,667.

CHARTWELL RETIREMENT RESIDENCES

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

27. Other income (expense) (continued):

Chartwell has determined that each of its properties are CGUs for purposes of impairment assessments as each property independently generates cash flows. The recoverable amount for each property was recorded on a valuation based on fair value less costs of disposal. Fair value is measured using either the present value of future cash flows or the direct capitalization method and is categorized within Level 3 of the fair value hierarchy. In calculating fair value, management estimates future stabilized cash flows which include assumptions about rental rates and occupancy rates. Such assumptions can be significantly impacted by current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Management also applies adjustments to reflect the expectations of market participants. The discount rates, capitalization rates and terminal capitalization rates applied to cash flows to determine the recoverable amount are based on recent transactions of similar assets within the market. During 2021, Chartwell recorded an impairment provision of \$850 on one of its properties which represented the write down of PP&E.

28. Finance costs:

| | 2022 | 2021 |
|---|-------------|-------------|
| Interest expense on mortgages | \$ (55,031) | \$ (55,356) |
| Interest expense on senior unsecured debentures | (13,888) | (13,888) |
| Credit facility and other interest expense | (7,731) | (1,635) |
| Interest expense on term loans | (4,992) | (7,363) |
| | (81,642) | (78,242) |
| Interest capitalized to properties under development | 2,276 | 3,468 |
| Amortization of financing costs and mark-to-market adjustments on assumed mortgages and senior unsecured debentures | (4,788) | (5,220) |
| Distributions on Class B Units recorded as interest expense | (937) | (937) |
| Total finance costs | \$ (85,091) | \$ (80,931) |

CHARTWELL RETIREMENT RESIDENCES

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

29. Change in fair values of financial instruments and foreign exchange gains (losses):

| | 2022 | 2021 |
|---|-----------|----------|
| Change in fair value of interest rate swaps | \$ 10,512 | \$ 4,755 |
| Change in fair value of EUPP option component | 4,053 | (1,812) |
| Change in fair value of Class B Units | 5,172 | (964) |
| Change in fair value of DTUs | 3,263 | (1,202) |
| Change in fair value - other | (1,314) | 323 |
| Change in fair value of income guarantees | - | 240 |
| Foreign exchange gains (losses) | 99 | (45) |
| Change in fair values of financial instruments and foreign exchange gains | \$ 21,785 | \$ 1,295 |

30. Income taxes:

For the year ended December 31, 2022, Chartwell recorded a deferred tax expense of \$14,131 (2021 - \$984). The 2022 deferred tax expense primarily relates to utilization of non-capital loss carry forwards against taxable capital gains on dispositions (note 5). This was partially offset by the deferred tax benefit as a result of the non-taxable portion of capital gains and fair value adjustments. The deferred tax expense for the year ended December 31, 2021, is primarily related to utilization of non-capital loss carry forwards against taxable capital gains on dispositions and fair value adjustments, partially offset by deferred tax benefit on the non-taxable portion of capital gains.

The income tax benefit (expense) - in the consolidated statements of comprehensive income represents an effective tax rate different than the Canadian tax rate applicable to trusts on undistributed income of 53.53% (2021 - 53.53%). The differences for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|-------------|------------|
| Income before income taxes from continuing operations | \$ 41,519 | \$ 6,966 |
| Net Income from discontinued operations | 22,143 | 4,150 |
| Net income before income taxes | 63,662 | 11,116 |
| Income tax expense at Canadian tax rate | \$ (34,078) | \$ (5,950) |
| Non-deductible and non-taxable items | 13,834 | 7,369 |
| Fair value changes | 5,982 | (1,957) |
| Other | 131 | (446) |
| Income tax expense | \$ (14,131) | \$ (984) |

CHARTWELL RETIREMENT RESIDENCES

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

30. Income taxes (continued):

Movement in deferred tax balances during the year is as follows:

| | Balance, January 1, 2022 | Recognized in net income (loss) | Recognized in unitholders' equity | Balance, December 31, 2022 |
|---|--------------------------------|---------------------------------------|---|----------------------------------|
| Property, plant and equipment | \$ (12,728) | \$ 4,997 | \$ – | \$ (7,731) |
| Intangible assets | (17,261) | 362 | – | (16,899) |
| Losses available for carryforward | 15,610 | (12,108) | – | 3,502 |
| Other | (2,388) | (7,382) | – | (9,770) |
| Deferred tax asset (liability) | (16,767) | (14,131) | – | (30,898) |
| Deferred tax assets recognized (not recognized) | (134) | – | – | (134) |
| Net deferred tax asset (liability) | \$ (16,901) | \$ (14,131) | \$ – | \$ (31,032) |

As at December 31, 2022, Chartwell had non-capital losses carried forward of \$8,614.

| | Balance, January 1, 2021 | Recognized in net income (loss) | Recognized in unitholders' equity | Balance, December 31, 2021 |
|---|--------------------------------|---------------------------------------|---|----------------------------------|
| Property, plant and equipment | \$ (17,684) | \$ 4,956 | \$ – | \$ (12,728) |
| Intangible assets | (17,021) | (240) | – | (17,261) |
| Losses available for carryforward | 19,365 | (3,755) | – | 15,610 |
| Other | (5,230) | (1,945) | 4,787 | (2,388) |
| Deferred tax asset (liability) | (20,570) | (984) | 4,787 | (16,767) |
| Deferred tax assets recognized (not recognized) | (134) | – | – | (134) |
| Net deferred tax asset (liability) | \$ (20,704) | \$ (984) | \$ 4,787 | \$ (16,901) |

CHARTWELL RETIREMENT RESIDENCES

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

30. Income taxes (continued):

Deferred tax assets have not been recognized for the deductible temporary differences of \$217 in 2022 (2021 - \$217). The deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these temporary differences as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

CHARTWELL RETIREMENT RESIDENCES

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

31. Commitments and contingencies:

Chartwell's maturities on major financial liabilities as at December 31, 2022, excluding future interest payments, are detailed in the following table:

| | Note | Contractual value | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter |
|---|-------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mortgages payable | 13 | \$ 1,701,668 | \$ 228,227 | \$ 263,176 | \$ 135,591 | \$ 139,185 | \$ 158,309 | \$ 777,180 |
| Term loans | 15 | 138,600 | — | 125,000 | — | — | 13,600 | — |
| Senior unsecured debentures | 16 | 350,000 | 200,000 | — | 150,000 | — | — | — |
| Accounts payable and accrued liabilities | 17 | 177,101 | 177,101 | — | — | — | — | — |
| Resident deposits | 17 | 4,651 | 4,651 | — | — | — | — | — |
| Distributions payable | | 12,147 | 12,147 | — | — | — | — | — |
| Credit facilities | 14 | 181,234 | — | 181,234 | — | — | — | — |
| Lease obligations | 31(a) | 8,316 | 868 | 819 | 148 | 128 | — | 6,353 |
| Total maturities | | \$ 2,573,717 | \$ 622,994 | \$ 570,229 | \$ 285,739 | \$ 139,313 | \$ 171,909 | \$ 783,533 |

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

31. Commitments and contingencies (continued):

(a) Lease obligations:

Chartwell has recorded lease obligations with respect to leases of land, office space and equipment (note 8).

(b) Purchase contracts:

Chartwell has entered into various construction contracts related to its development projects. As at December 31, 2022, the remaining commitments under these contracts amounted to approximately \$23,794 (2021 - \$48,036).

(c) Other:

Under Chartwell's agreements with Batimo Inc. ("Batimo"), Batimo can require Chartwell to acquire an 85% interest in their development properties in which Chartwell participates as the operations manager and, in some cases, as the mezzanine lender, at 99% of Fair Market Value ("FMV"), as defined in the agreements ("Batimo Option"). Batimo's Option for certain properties is for a five-year period commencing when the related property achieves a minimum 90% occupancy level for two consecutive months, subject to certain conditions, at purchase prices determined based on the appraisal mechanism described in such agreements. Upon expiry of the Batimo Option, Chartwell has a two-year option to require Batimo to sell an 85% interest in some of the properties at FMV and others at 99% of FMV, as defined in the agreements. Chartwell and Batimo have revised the terms of their relationship for new projects starting with developments in Q3 2021 ("Batimo Option 2.0") to provide for the Batimo Option to be for a two-year period instead of five. Upon expiry of the Batimo Option 2.0, Chartwell will have a one-year option instead of two to acquire an 85% interest in the property at 99% of FMV.

During the year ended December 31, 2022, two projects under the Batimo Option, one with 361 suites and another with 283 suites, achieved stabilized occupancy (defined as 90% occupancy for two consecutive months) which is one of the conditions mentioned above. Chartwell estimates that the current FMV of these two properties at 100% ownership interest is \$130,000.

CHARTWELL RETIREMENT RESIDENCES

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

31. Commitments and contingencies (continued):

(d) Letters of credit:

As at December 31, 2022, Chartwell was contingently liable for letters of credit in the amount of \$6,273 (2021 - \$6,466).

(e) Guarantees:

As a result of a purchaser's assumption of the mortgage on a property sold in 2014, Chartwell remains a guarantor of the mortgage. As at December 31, 2022, the outstanding balance on this mortgage was \$881 (2021 - \$1,186). The purchaser has indemnified Chartwell with respect to this guarantee.

Chartwell, with its partners, has jointly and severally guaranteed loans on partially owned properties. Chartwell ownership interest in these properties range from 42.5% to 85%, to a maximum amount of \$565,379. As at December 31, 2022, outstanding balances on these mortgages totalled \$457,355 (\$222,129 of which represents the partners' share).

(f) Litigation and claims:

In 2020 Chartwell Retirement Residences and/or its subsidiaries were named in three proposed class action lawsuits in Ontario related to the pandemic (the "Claims"). In January 2022, the Court granted an order to consolidate the Claims into one proceeding (the "Consolidated Claim") seeking to be certified as a class action. The Consolidated Claim alleges, among other things, gross negligence, breach of the Canadian Charter of Rights and Freedoms, breach of the Human Rights Code, breach of contract and breach of fiduciary duty in respect of Chartwell's response to the pandemic at a number of Chartwell Long Term care residences. The Consolidated Claim has not been certified. The Certification Motion for the Consolidated Claim is expected to be heard in 2023.

On November 20, 2020, Bill 218, Supporting Ontario's Recovery and Municipal Elections Act, 2020 (the "Recovery Act") received Royal Assent and came into effect. The Recovery Act provides protections from liability to businesses that make good faith efforts to comply with public health guidelines and laws regarding exposure to COVID-19, provided the business was not grossly negligent. The legislation applies retroactively to March 17, 2020. If the proposed class action is not dismissed in accordance with the Recovery Act, Chartwell intends, through its insurer, to defend itself against the claim. Chartwell did not record a provision with respect to this claim as at December 31, 2022.

CHARTWELL RETIREMENT RESIDENCES

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

31. Commitments and contingencies (continued):

In 1995, certain participating Ontario LTC homes and their respective unions agreed to a framework using the proxy method for a new pay equity plan that resulted in pay equity being achieved by 2005 under the Pay Equity Act. The Ontario Government directly funded these pay equity obligations. Litigation commenced in 2010, when two unions asserted that the participating LTC homes were required to make further pay equity adjustments. The Ontario Pay Equity Tribunal (the "Tribunal") found generally in favour of the participating LTC homes and also confirmed that there is an on-going obligation to maintain pay equity. The appellate courts, on the appeal of the Tribunal decision, found in favour of the unions and referred the matter back to the Tribunal to determine the procedure to be used to provide bargaining unit members access to male comparators in order to maintain pay equity. The Ontario government and the participating LTC homes appealed the appellate court decision.

On October 14, 2021, the application for leave to appeal from the judgment of the Court of Appeal in Attorney General of Ontario et al. v. Ontario Nurses' Association et al. was dismissed by the Supreme Court of Canada, thus upholding the appellate court decision. Chartwell owns four LTC homes that are respondents to this decision. In addition, Chartwell owns five LTC homes that also used the proxy method to achieve pay equity which could also be affected by this decision. Chartwell continues to work with the unions, the other participating LTC homes and the Ontario Government to reach a pay equity maintenance framework appropriate for the sector.

There are a significant number of uncertainties related to how the appellate court decision should be implemented. Discussions between the affected parties regarding the development of an appropriate framework and resolution to this matter have not yet progressed meaningfully, thereby creating additional uncertainty related to potential outcomes, as well as uncertainty relating to the timing of when more information on the outcomes will be known and when the matter may be settled. As a result of the significant number of judgments that would be required, a reliable estimate of Chartwell's liability for any pay equity adjustments cannot currently be made. Chartwell expects that any adjustments will be fully funded by the government. No liability for potential pay equity adjustments or expected recovery from the Ontario Government has been recognized in Chartwell's financial statements. An increase in labour costs as a result of any unfunded adjustments could adversely affect the financial condition of Chartwell.

CHARTWELL RETIREMENT RESIDENCES

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

32. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2022 and 2021 was as follows:

| | 2022 | 2021 |
|---------------------------------------|-------------------|-------------------|
| Officers' and directors' compensation | \$ (4,578) | \$ (4,788) |
| Post-employment benefits | (117) | (59) |
| Other long-term benefits | (518) | (1,258) |
| Unit-based payments | (221) | (531) |
| | <u>\$ (5,434)</u> | <u>\$ (6,636)</u> |

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

33. Expenses by nature:

| | 2022 | 2021 |
|--------------------|---------------------|---------------------|
| Wages and benefits | \$ (364,595) | \$ (351,582) |
| Food and supplies | (49,499) | (46,109) |
| Realty taxes | (26,593) | (25,564) |
| Utilities | (27,927) | (24,613) |
| Other | (45,731) | (20,380) |
| | <u>\$ (514,345)</u> | <u>\$ (468,248)</u> |

Included in the consolidated statements of net income:

| | | |
|-----------------------------------|---------------------|---------------------|
| Direct property operating | \$ (464,704) | \$ (423,884) |
| General, administrative and trust | (49,641) | (44,364) |
| | <u>\$ (514,345)</u> | <u>\$ (468,248)</u> |

CHARTWELL RETIREMENT RESIDENCES

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

34. Subsequent Events

On February 8, 2023, Chartwell entered into a definitive agreement to sell one non-core property in Ontario for a sale price of \$5,000. A vendor take-back mortgage will be extended to the purchaser in the amount of \$3,900, bearing an interest rate of 10.0% per annum with a three-year term. Of the remaining purchase price, \$600 will be held back for potential income support guarantee payments and the remainder of the purchase price will be paid in cash. This transaction is expected to close in Q1 2023.