

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

As at and for the three months and nine months ended
September 30, 2016 and 2015
(Unaudited)

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Balance Sheets
(In thousands of Canadian dollars)
(Unaudited)

	Note	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 6,017	\$ 3,002
Trade and other receivables		14,535	7,948
Capital funding receivable		5,586	5,243
Other assets	4	15,788	16,938
Total current assets		41,926	33,131
Non-current assets:			
Other assets	4	3,684	3,733
Loans receivable	5	10,523	15,764
Capital funding receivable		55,955	56,198
Investment in joint ventures	6	31,868	33,993
Intangible assets		57,573	57,202
Property, plant and equipment ("PP&E")	3	2,563,344	2,399,368
Total non-current assets		2,722,947	2,566,258
Total assets		\$ 2,764,873	\$ 2,599,389
Liabilities and Unitholders' Equity			
Current liabilities:			
Secured revolving operating credit facilities	7(b)	\$ –	\$ 32,000
Accounts payable and other liabilities	9	107,827	114,036
Distributions payable		9,030	8,243
Mortgages payable	7(a)	158,498	159,699
Total current liabilities		275,355	313,978
Non-current liabilities:			
Mortgages payable	7(a)	1,447,628	1,371,659
Secured revolving operating credit facilities	7(b)	182,000	–
Deferred consideration on business combinations		1,620	1,535
Convertible debentures	8	–	161,754
Class B Units of Chartwell Master Care LP ("Class B Units")	11	25,797	20,943
Deferred tax liabilities	18	1,518	–
Total non-current liabilities		1,658,563	1,555,891
Total liabilities		1,933,918	1,869,869
Unitholders' equity	12	830,955	729,520
Total liabilities and unitholders' equity		\$ 2,764,873	\$ 2,599,389

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Huw Thomas" _____ Trustee "Sidney Robinson" _____ Trustee

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Revenue:					
Resident		\$ 179,688	\$ 162,509	\$ 531,728	\$ 470,501
Management and other fees		2,163	1,925	6,236	5,838
Lease revenue from joint ventures	6	8,529	8,299	25,275	24,701
Interest on loans receivable		266	355	970	781
		190,646	173,088	564,209	501,821
Expenses:					
Direct operating		122,883	115,562	367,050	341,033
General, administrative and trust		8,264	7,003	25,611	23,190
		131,147	122,565	392,661	364,223
Income before the undernoted ⁽¹⁾		59,499	50,523	171,548	137,598
Finance costs	15	(16,630)	(17,386)	(52,196)	(54,009)
Other income (expense)	16	(4,426)	(7,379)	(3,833)	7,309
Depreciation of PP&E	3	(37,663)	(28,012)	(107,337)	(79,511)
Amortization of intangible assets		(292)	(152)	(884)	(510)
Changes in fair values of financial instruments and foreign exchange gains (losses)	17	178	(863)	(23,696)	4,160
Share of net income from joint ventures	6	1,759	966	2,862	1,259
Income (loss) before income taxes		2,425	(2,303)	(13,536)	16,296
Income tax (expense) benefit:	18				
Current		–	(2,796)	–	(2,796)
Deferred		–	789	–	–
		–	(2,007)	–	(2,796)
Net income (loss) from continuing operations		2,425	(4,310)	(13,536)	13,500
Discontinued operations:					
Net income (loss) from discontinued operations, net of income taxes	10	5	(458)	3,279	348,171
Net income (loss)		2,430	(4,768)	(10,257)	361,671
Other comprehensive income (loss):					
Items that may be reclassified subsequently to net income (loss):					
Unrealized foreign currency gain on translation of foreign operations considered discontinued operations					
		–	–	–	5,945
Reclassification of foreign currency translation differences on disposition of U.S. segment					
		–	–	–	(10,599)
		–	–	–	(4,654)
Total comprehensive income (loss)		\$ 2,430	\$ (4,768)	\$ (10,257)	\$ 357,017

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

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Nine months ended September 30, 2016	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated losses	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2015	\$ 1,778,496	\$ 16,889	\$ (12,657)	\$ (159,304)	\$ (900,450)	\$ 6,546	\$ 729,520
Net loss	–	–	–	(10,257)	–	–	(10,257)
Distributions to unitholders	–	–	–	–	(77,836)	–	(77,836)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	14,625	–	–	–	–	–	14,625
Trust Units issued on conversion of convertible debentures	173,194	–	–	–	–	–	173,194
Trust Units issued on exchange of Class B Units	151	–	–	–	–	–	151
Trust units issued under the Executive Unit Purchase Plan ("EUPP", formerly known as "LTIP"), net of cancellations and Trust Units released on settlement of EUPP receivable	1,217	88	(351)	–	–	41	995
Interest on EUPP receivable	–	–	(95)	–	–	–	(95)
Distributions applied against EUPP receivable	–	–	658	–	–	–	658
Unitholders' equity, September 30, 2016	\$ 1,967,683	\$ 16,977	\$ (12,445)	\$ (169,561)	\$ (978,286)	\$ 6,587	\$ 830,955

During the nine months ended September 30, 2016, distributions were declared and paid at \$0.0459 per unit for the months of January and February and \$0.046818 per unit for the months of March to September. In October 2016, distributions were declared at \$0.046818 per unit totalling \$8,960.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (continued)

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

(Unaudited)

Nine months ended September 30, 2015	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated income (losses)	Discontinued operations: Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2014	\$ 1,743,786	\$ 17,873	\$ (13,950)	\$ (521,537)	\$ 4,654	\$ (803,897)	\$ 6,669	\$ 433,598
Net income				361,671	–	–	–	361,671
Other comprehensive loss	–	–	–	–	(4,654)	–	–	(4,654)
Distributions to unitholders	–	–	–	–	–	(72,208)	–	(72,208)
Trust Units issued under the Distribution Reinvestment Program	13,792	–	–	–	–	–	–	13,792
Trust Units issued on conversion of convertible debentures	117	–	–	–	–	–	–	117
Trust units issued under the Executive Unit Purchase Plan, net of cancellations and Trust Units released on settlement of EUPP receivable	1,055	(565)	224	–	–	–	6	720
Interest on EUPP receivable	–	–	(102)	–	–	–	–	(102)
Distributions applied against EUPP receivable	–	–	671	–	–	–	–	671
Unitholders' equity, September 30, 2015	\$ 1,758,750	\$ 17,308	\$ (13,157)	\$ (159,866)	\$ –	\$ (876,105)	\$ 6,675	\$ 733,605

During the nine months ended September 30, 2015, distributions were declared and paid at \$0.045 per unit per month for the months of January and February, and \$0.0459 per unit from March to September. In October 2015, distributions were declared at \$0.0459 per unit totalling \$8,177.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 2,430	\$ (4,768)	\$ (10,257)	\$ 361,671
Items not affecting cash:				
Depreciation and amortization	37,955	28,164	108,221	94,146
Finance costs	16,630	17,386	52,196	70,948
Other expense (income)	4,421	7,837	3,695	(437,977)
Transaction costs arising from business acquisitions and dispositions	(943)	(7,571)	(5,495)	(22,819)
Interest on loans receivable	(266)	(355)	(970)	(781)
Non-cash compensation expense	259	303	1,082	1,200
Changes in fair values of financial instruments and foreign exchange losses (gains)	(178)	863	23,696	22,667
Current income taxes	–	2,796	–	60,693
Deferred income taxes	–	(789)	–	–
Share of net income from joint ventures	(1,759)	(966)	(2,862)	(1,259)
Other	231	18	952	529
Change in trade and other receivables	(1,009)	(697)	(6,499)	8,155
Change in other assets	898	678	1,669	5,786
Change in accounts payable and other liabilities	3,503	10,305	(12,796)	(27,831)
	62,172	53,204	152,632	135,128
Interest and other income received	1,078	865	3,258	2,597
Interest paid	(17,918)	(19,369)	(56,047)	(74,492)
Net cash provided by operating activities	45,332	34,700	99,843	63,233
Financing activities:				
Proceeds from mortgage financing	38,089	50,089	132,670	87,520
Mortgage repayments	(8,044)	(120,587)	(82,395)	(145,968)
Changes to credit facilities	18,000	(64,000)	150,000	4,500
Scheduled mortgage principal repayments	(13,056)	(12,605)	(39,196)	(43,186)
Net additions to finance costs	(1,484)	(456)	(3,195)	(1,848)
Distributions paid	(21,235)	(19,062)	(61,861)	(57,631)
Net cash provided by (used in) financing activities	12,270	(166,621)	96,023	(156,613)
Investing activities:				
Acquisition of assets under business combinations	(31,536)	(258,465)	(131,227)	(300,839)
Additions to PP&E and intangible assets	(27,881)	(14,756)	(77,640)	(45,932)
Proceeds from disposal of PP&E, net of related debt repayment	773	1,192	734	472,694
Change in restricted cash	(140)	512	134	7,981
Proceeds from capital funding receivable	1,349	1,266	4,921	3,748
Change in loans receivable	(776)	(7,347)	5,241	(7,347)
Distributions received from joint ventures	2,375	–	4,986	307
Taxes paid on disposal of PP&E	–	–	–	(47,602)
Net cash provided by (used in) investing activities	(55,836)	(277,598)	(192,851)	83,010
Increase (decrease) in cash	1,766	(409,519)	3,015	(10,370)
Foreign exchange gains on U.S. dollar-denominated cash	–	–	–	9,417
Cash and cash equivalents, beginning of period	4,251	419,493	3,002	10,927
Cash and cash equivalents, end of period	\$ 6,017	\$ 9,974	\$ 6,017	\$ 9,974

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

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

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on November 9, 2016.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2015.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

2. Acquisitions:

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

Date of acquisition	March 15, 2016	April 21, 2016	May 2, 2016	June 2, 2016	September 1, 2016			
Segment	Retirement Operations							
Location	Province of Ontario	Province of BC	Province of Ontario	Province of Ontario	Province of Ontario		Step accounting adjustments ⁽¹⁾	Total
Number of properties (suites)	1 (105 suites)	1 (97 suites) ⁽¹⁾	1 (109 suites)	1 (127 suites)	1 (121 suites)	Subtotal		
PP&E	\$ 66,166	\$ 11,841	\$ 37,405	\$ 70,324	\$ 31,536	\$ 217,272	\$ 11,841	\$ 229,113
Goodwill	–	1,017	–	–	–	1,017	–	1,017
Deferred tax liability	–	(1,518)	–	–	–	(1,518)	–	(1,518)
Net assets acquired	\$ 66,166	\$ 11,340	\$ 37,405	\$ 70,324	\$ 31,536	\$ 216,771	\$ 11,841	\$ 228,612
Cash consideration	\$ 30,251	\$ 5,925	\$ 17,252	\$ 46,263	\$ 31,536	\$ 131,227	\$ –	\$ 131,227
Mortgages assumed	35,915	5,415	20,153	24,061	–	85,544	5,416	90,960
Fair value of previously held interest	–	–	–	–	–	–	6,425	6,425
Total consideration transferred	\$ 66,166	\$ 11,340	\$ 37,405	\$ 70,324	\$ 31,536	\$ 216,771	\$ 11,841	\$ 228,612

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

2. Acquisitions (continued):

On March 15, 2016, Chartwell acquired a 100% interest in a 105 unit retirement residence located in Ottawa, Ontario. The purchase price before closing costs and mortgage mark to market adjustment was \$63,650 and was settled by the assumption of a \$33,399 mortgage bearing interest at 4.41% and maturing on September 1, 2024 and cash. Chartwell recorded a mortgage mark to market adjustment of \$2,516 with respect to the assumed mortgage. The property has contributed revenue of \$3,508 and net loss of \$3,077 since the acquisition. Chartwell incurred acquisition related costs of \$1,808, which have been expensed in other income (expense) in the condensed consolidated interim statements of comprehensive income (loss).

On April 21, 2016, Chartwell acquired from its partner all outstanding shares of a corporation that owns a 50% interest in a 97-suite Kamloops Retirement Residence ("Kamloops"). The purchase price was \$5,925, representing the agreed upon value of the 50% interest in Kamloops of \$11,150, net of the company's share of the mortgage debt of \$5,225 and was settled in cash. The assumed mortgage bears interest at 3.95% and matures on October 1, 2019. Chartwell recorded a mortgage mark to market adjustment of \$190 with respect to the assumed mortgage. Chartwell also recorded a deferred tax liability of \$1,518 and goodwill of \$1,017. Upon completion of this transaction, Chartwell owns 100% interest in the property.

As the Kamloops acquisition was completed in steps, Chartwell has remeasured its original 50% interest to fair value.

This re-measurement has resulted in an increase in value of \$5,187 which has been recognized as a gain in other expense (income) in profit or loss. The net book value of the original 50% interest prior to this acquisition was \$6,425.

Kamloops has contributed revenue of \$1,630 and net income of \$101 since the acquisition date. Chartwell incurred acquisition-related costs of \$19, which have been expensed in other income (expense) in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

2. Acquisitions (continued):

On May 2, 2016, Chartwell acquired a 100% interest in a 109 suite retirement residence located in Brockville, Ontario. The purchase price was \$37,100 and was settled by the assumption of a \$19,848 mortgage bearing interest at 4.29% and maturing on April 1, 2017 and cash. Chartwell recorded a mortgage mark to market adjustment of \$305 with respect to the assumed mortgage. The property has contributed revenue of \$2,356 and net loss of \$935 since acquisition. Chartwell incurred acquisition-related costs of \$601, which have been expensed in other income (expense) in the condensed consolidated interim statements of comprehensive income (loss).

On June 2, 2016, Chartwell acquired a 100% interest in a 127 unit retirement residence located in Ottawa, Ontario. The purchase price was \$68,350 and was settled by assumption of a \$22,087 mortgage bearing interest at 4.56% and maturing on March 1, 2020 and cash. Chartwell recorded a mortgage mark to market adjustment of \$1,974 with respect to the assumed mortgage. The property has contributed revenue of \$2,370 and net loss of \$2,387 since acquisition. Chartwell incurred acquisition-related costs of \$1,910, which have been expensed in other income (expense) in the condensed consolidated interim statements of comprehensive income (loss).

On September 1, 2016, Chartwell acquired a 100% interest in a 121 unit retirement residence located in Midland, Ontario. The purchase price before working capital adjustments was \$31,500 and was settled in cash. The property has contributed revenue of \$262 and net loss of \$529 since acquisition. Chartwell incurred acquisition-related costs of \$556 which have been expensed in other income (expense) in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

3. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, December 31, 2014	\$ 327,865	\$ 2,723,321	\$ 97,058	\$ 14,658	\$ 27,211	\$ 3,190,113
Additions	–	60,839	8,413	13,291	–	82,543
Additions through business combinations	34,212	509,674	11,105	–	1,000	555,991
Disposals	(90,973)	(749,075)	(33,541)	–	(9,839)	(883,428)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Transfers	547	10,268	628	(13,204)	–	(1,761)
Exchange differences on translation of United States Operations	5,206	42,331	1,864	–	504	49,905
Balance, December 31, 2015	276,857	2,567,935	84,530	14,745	18,876	2,962,943
Additions	–	29,886	7,158	32,643	8,615	78,302
Additions through business combinations	12,155	211,847	4,511	–	600	229,113
Disposals	(4,378)	(37,642)	(1,728)	–	–	(43,748)
Derecognition	–	(205,282)	(929)	–	–	(206,211)
Capital subsidy receivable	–	(5,023)	–	–	–	(5,023)
Transfers	426	952	–	1,269	(2,886)	(239)
Balance, September 30, 2016	\$ 285,060	\$ 2,562,673	\$ 93,542	\$ 48,657	\$ 25,205	\$ 3,015,137
Accumulated depreciation and impairment losses						
Balance, December 31, 2014	\$ –	\$ 632,621	\$ 64,366	\$ 2,422	\$ 1,103	\$ 700,512
Depreciation	–	114,687	12,939	–	–	127,626
Disposals	–	(223,734)	(25,746)	–	(1,103)	(250,583)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Impairment, net	–	3,755	–	–	–	3,755
Exchange differences on translation of United States Operations	–	11,320	1,365	–	–	12,685
Balance, December 31, 2015	–	509,226	51,927	2,422	–	563,575
Depreciation	–	98,140	9,197	–	–	107,337
Disposals	–	(18,995)	(1,413)	–	–	(20,408)
Derecognition	–	(205,282)	(929)	–	–	(206,211)
Impairment	–	7,500	–	–	–	7,500
Balance, September 30, 2016	\$ –	\$ 390,589	\$ 58,782	\$ 2,422	\$ –	\$ 451,793
Carrying amounts						
Balance, December 31, 2015	\$ 276,857	\$ 2,058,709	\$ 32,603	\$ 12,323	\$ 18,876	\$ 2,399,368
Balance, September 30, 2016	285,060	2,172,084	34,760	46,235	25,205	2,563,344

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

3. Property, plant and equipment (continued):

During the nine months ended September 30, 2016, Chartwell capitalized \$666 (September 30, 2015 - \$168) of borrowing costs related to development projects under construction at an average capitalization rate of 3.97% (September 30, 2015 - 4.60%).

During the nine months ended September 30, 2016, Chartwell acquired land for development in Gatineau, Quebec for \$8,500 before closing costs.

In the nine months ended September 30, 2016, Chartwell received notices of increases in capital funding on three redeveloped long term care properties from \$15.48 per bed per day to \$18.83 per bed per day retroactive to the date of completion. Consequently, Chartwell recognized an additional capital funding receivable of \$5,023 with a corresponding reduction in the cost of PP&E.

As of September 30, 2016 the cost and accumulated depreciation was reduced by \$174,392 related to fully amortized value of resident contracts.

4. Other assets:

	September 30, 2016	December 31, 2015
Prepaid expenses and deposits	\$ 11,850	\$ 11,130
Restricted cash	2,065	2,199
Other assets	5,557	7,342
	<u>\$ 19,472</u>	<u>\$ 20,671</u>
Current	\$ 15,788	\$ 16,938
Non-current	3,684	3,733
	<u>\$ 19,472</u>	<u>\$ 20,671</u>

Other assets include receivables of \$1,596 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties to Chartwell (December 31, 2015 - \$3,264). Income guarantees are considered Level 3 in the fair value hierarchy. During the nine months ended September 30, 2016, \$2,087 of income guarantees was collected.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

5. Loans receivable:

On June 23, 2016, vendor take back loans totalling \$6,000 were repaid.

On July 5, 2016 Chartwell replaced one land loan in the amount of \$1,900 with a mezzanine loan of \$2,690 for development of a 163 suite addition to its retirement residence in Quebec.

6. 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 September 30, 2016:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord ⁽¹⁾	38	Canada	50%	Joint operation
Chartwell-Welltower Operator ⁽¹⁾	38	Canada	50%	Joint venture ⁽²⁾
Batimo	4	Canada	85%	Joint operation
Oakville	1	Canada	50%	Joint venture ⁽²⁾
Constantia	1	Canada	50%	Joint venture ⁽²⁾
Riverside	1	Canada	50%	Joint operation
Churchill	1	Canada	50%	Joint operation
Oak Ridges ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
Clair Hills ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
The Sumach	1	Canada	45%	Joint operation

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

On June 27, 2016, Chartwell entered into a new joint arrangement with Welltower and Daniels Corporation ("Daniels") to develop The Sumach by Chartwell, a 332-suite apartment building in Toronto, Ontario. Welltower and Chartwell each own a 45% interest and Daniels owns a 10% interest.

On April 21, 2016, Chartwell acquired the remaining 50% ownership in Kamloops and now owns 100% of the property. Previously Chartwell accounted for Kamloops as a joint operation.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

6. Joint arrangements (continued):

The following tables summarize certain information about Chartwell's investment in joint ventures:

	Nine months ended September 30,	
	2016	2015
Distributions received from joint ventures	\$ 5,375	\$ 307
Contributions to joint ventures	389	–

	September 30, 2016	December 31, 2015
Current assets	\$ 13,079	\$ 13,542
Non-current assets	101,107	105,948
Total assets	\$ 114,186	\$ 119,490
Current liabilities	\$ 4,768	\$ 20,269
Non-current liabilities	77,550	65,228
Total liabilities	\$ 82,318	\$ 85,497
Net investment in joint ventures	\$ 31,868	\$ 33,993

Included in current assets is \$5,290 of cash held by joint ventures (December 31, 2015 - \$5,852).

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 30,245	\$ 25,922	\$ 89,655	\$ 77,940
Expenses	(28,486)	(24,956)	(86,793)	(76,681)
Chartwell's share of net income from joint ventures	\$ 1,759	\$ 966	\$ 2,862	\$ 1,259

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
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6. 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 condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable, and in management fee revenue, as applicable. As of September 30, 2016, \$442 (December 31, 2015 - \$244) of Chartwell's accounts receivable and \$6,405 (December 31, 2015 - \$4,625) of Chartwell's accounts payable relate to its investments in joint ventures. For the three and nine months ended September 30, 2016, \$1,548 and \$4,503, respectively (three and nine months ended September 30, 2015 - \$1,360 and \$4,107, respectively), of Chartwell's management fees related to its investment in joint ventures.

Chartwell and Welltower Inc. (formerly Health Care REIT Inc.) ("Welltower") (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 38 properties are accounted for as joint operations. Chartwell's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Chartwell-Welltower operator") and, is accounted for as joint ventures using the equity method.

Chartwell-Welltower operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. Lease payments vary for each property and include annual adjustments based upon agreed financial ratios. As a result, Chartwell's 50% share of the landlords' lease receipts, \$8,529 and \$25,275 for the three and nine months ended September 30, 2016 respectively (three and nine months ended September 30, 2015 - \$8,299 and \$24,701 respectively), is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower operator lease expense is included in the share of net income (loss) from joint ventures in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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7. Secured debt:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. The mortgages payable as at September 30, 2016 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2016	\$ 12,962	\$ 24,539	\$ 37,501	2
2017	49,510	89,292	138,802	9
2018	49,147	127,803	176,950	11
2019	48,303	223,936	272,239	17
2020	47,826	143,633	191,459	12
2021	46,004	72,274	118,278	7
2022	42,823	62,200	105,023	7
2023	38,856	52,760	91,616	6
2024	28,433	153,703	182,136	11
2025	22,045	44,335	66,380	4
2026	20,395	14,070	34,465	2
2027	20,503	—	20,503	2
2028	27,610	18,925	46,535	3
2029	18,580	—	18,580	1
2030	17,225	—	17,225	1
Thereafter	65,687	22,253	87,940	5
	<u>\$ 555,909</u>	<u>\$ 1,049,723</u>	1,605,632	<u>100%</u>
Mark-to-market adjustments on acquisition			20,961	
Financing costs			(20,467)	
			<u>\$ 1,606,126</u>	
Current			\$ 158,498	
Non-current			1,447,628	
			<u>\$ 1,606,126</u>	

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
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7. Secured debt (continued):

	September 30, 2016	December 31, 2015
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,565,191	\$ 1,365,860
Interest rates	1.79 to 8.51%	1.79 to 8.51%
Weighted average interest rate	4.00%	4.30%
Mortgages at variable rates:		
Mortgages (principal)	\$ 40,441	\$ 166,056
Interest rates	Banker's acceptance plus 1.50% to prime plus 2.00%	Banker's acceptance plus 1.50% to prime plus 2.00%
Weighted average interest rate	3.02%	3.01%
Blended weighted average rate	3.97%	4.16%

Mortgages totalling \$284,992 (December 31, 2015 - \$124,978) have interest rates fixed through interest rate swap contracts with a fair value liability of \$1,060 (December 31, 2015 - \$803), included in accounts payable and other accrued liabilities.

(b) Credit facilities:

- (i) Chartwell has a revolving credit facility with a syndicate of Canadian banks. The amounts outstanding on the credit facility bear interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.80% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.80%, depending on the ratio of Chartwell's debt to adjusted gross book value of assets ("D/GBV"), as defined in the credit agreement. The credit facility is secured by first ranked and second ranked charges on specific properties and includes minimum equity requirements and covenants which include limitations on the amount of cash distributions that can be paid to unitholders. The credit facility matures on June 1, 2018. At September 30, 2016, the maximum available borrowing capacity under the credit facility was \$200,000 (December 31, 2015 - \$199,134) based on the security provided. Of this capacity, \$6,421 (December 31, 2015 - \$4,002) has been allocated to support various letters of credit issued by Chartwell. As at September 30, 2016, \$140,000 (December 31, 2015 - \$32,000) was drawn under the credit facility.

CHARTWELL RETIREMENT RESIDENCES

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

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7. Secured debt (continued):

- (ii) On June 17, 2016, Chartwell arranged an additional credit facility with a Canadian chartered bank maturing on June 1, 2018. The amounts outstanding on this credit facility bear interest ranging from bank's prime rate plus 0.60% to bank's prime rate plus 0.75% or banker's acceptance rate plus 1.60% to banker's acceptance rate plus 1.75 depending on the ratio of Chartwell's D/GBV, as defined in the credit agreement. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The credit facility is secured by second ranked charges on specific properties. At September 30, 2016, the maximum available borrowing capacity under the credit facility was \$44,559 based on the security provided. As at September 30, 2016, \$42,000 was drawn under the credit facility.

8. Convertible debentures:

On April 12, 2016, Chartwell issued a notice to the holders of the 5.7% convertible debentures that it would redeem such debentures on May 16, 2016. The outstanding balance of convertible debentures on the notice date was \$131,907. Pursuant to the terms of 5.7% convertible debentures the holders had the right to convert their 5.7% convertible debentures into Trust Units, at a conversion price of \$11.00 per Trust Unit, being a rate of approximately 90.9091 Units per \$1,000 principal amount of 5.7% convertible debentures.

Chartwell elected to satisfy its redemption obligations for any unconverted debentures by issuing its Trust Units at 95% of the current market price of the Trust Unit on the redemption date as provided for in the Trust Indenture.

Following Chartwell's notice of redemption to the holders of the 5.7% convertible debentures, on April 12, 2016, pursuant to the terms of the debentures, holders of \$125,534 principal amount of debentures exercised the conversion option, resulting in the issuance of 11,412,171 Units, at a conversion price of \$11.00 per Trust Unit.

On May 16, 2016, the remaining \$6,373 of the unconverted 5.7% convertible debentures, were redeemed through the issuance of 477,975 Units at a conversion price of \$13.33 per Trust Unit.

CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

9. Accounts payable and other liabilities:

	Note	September 30, 2016	December 31, 2015
Accounts payable and accrued liabilities		\$ 72,531	\$ 88,679
Resident deposits		2,403	2,846
Deferred revenue		411	528
Deferred Trust Units ("DTU")	(a)	14,278	10,501
Restricted Trust Units ("RTU")	(b)	5,338	3,118
EUPP option component	12	12,866	8,364
		\$ 107,827	\$ 114,036

(a) DTU:

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 ask price of Trust Units as at September 30, 2016 was \$15.82 (December 31, 2015 - \$12.76).

	Units outstanding	Amount
Balance, December 31, 2014	692,049	\$ 8,269
Units granted	97,203	1,179
Change in fair value and distributions	33,914	1,053
Balance, December 31, 2015	823,166	10,501
Units granted	54,300	818
Change in fair value and distributions	25,228	2,959
Balance, September 30, 2016	902,694	\$ 14,278

(b) RTU:

During the nine months ended September 30, 2016, 207,943 RTUs were granted, 59,911 RTUs were cancelled and 16,513 RTUs relate to reinvested distributions. At September, 2016, 598,319 RTUs remain outstanding (December 31, 2015 - 433,774).

RTU compensation expense and the corresponding liability are recognized over the three year vesting period. The liability is measured to fair value based on the market price for Trust Units at each reporting period until settlement.

CHARTWELL RETIREMENT RESIDENCES

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

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10. Discontinued operations:

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

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

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

10. Discontinued operations (continued):

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Resident revenue	\$ –	\$ –	\$ –	\$ 114,110
Direct operating costs	–	–	–	(80,819)
Finance costs	–	–	–	(16,939)
Other income (expense)	5	–	138	(1,371)
Gain (loss) on disposal of PP&E	–	(458)	–	432,039
Depreciation of PP&E	–	–	–	(13,870)
Amortization of intangible assets	–	–	–	(255)
Changes in fair values of financial instruments, foreign exchange and adjustments on mortgages	–	–	–	(26,827)
Income (loss) before income taxes	5	(458)	138	406,068
Income tax (expense) benefit (note 18):				
Current	–	–	3,141	(57,897)
Deferred	–	–	–	–
Net income (loss) from discontinued operations	\$ 5	\$ (458)	\$ 3,279	\$ 348,171
Cash flows from discontinued operations:				
Net cash used in operating activities	\$ –	\$ –	\$ –	\$ (22,336)
Net cash used in financing activities	–	–	–	(5,213)
Net cash provided by investing activities	–	–	–	427,045
Foreign exchange loss on cash	–	–	–	(7)
Effect on cash flows	\$ –	\$ –	\$ –	\$ 399,489

CHARTWELL RETIREMENT RESIDENCES

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

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11. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability under IFRS. Chartwell has elected to designate Class B Units as fair value through profit or loss. 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 ask price of Trust Units as at September 30, 2016 was \$15.82 per unit (December 31, 2015 - \$12.76 per unit). At September 30, 2016, 1,630,673 Class B Units were outstanding (December 31, 2015 - 1,641,323).

12. Trust Units and EUPP:

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, December 31, 2014	173,485,992	\$ 1,743,786
Trust Units issued under DRIP	1,595,951	18,574
Trust Units issued on conversion of debt	13,542	149
Trust Units issued in exchange of Class B Units	1,187,170	14,590
Trust Units released on settlement of EUPP receivable	118,546	1,397
Balance, December 31, 2015	176,401,201	1,778,496
Trust Units issued under DRIP	1,061,484	14,625
Trust Units issued on conversion of debt (note 8)	12,157,779	173,194
Trust Units issued on exchange of Class B Units	10,650	151
Trust Units released on settlement of EUPP receivable	70,053	1,217
Balance, September 30, 2016	189,701,167	\$ 1,967,683

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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12. Trust Units and EUPP (continued):

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
Balance, December 31, 2014	1,640,764	\$ 17,873
Trust Units issued under EUPP	71,734	856
Trust Units surrendered for cancellation under EUPP	(40,318)	(443)
Trust Units released on settlement of EUPP receivable	(118,546)	(1,397)
Balance, December 31, 2015	1,553,634	16,889
Trust Units issued under EUPP	79,454	1,072
Trust Units surrendered for cancellation under EUPP	(10,671)	(115)
Trust Units released on settlement of EUPP receivable	(70,053)	(869)
Balance, September 30, 2016	1,552,364	\$ 16,977

Fair value 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:

	September 30, 2016	December 31, 2015
Expected volatility	16.92% - 21.92%	15.32% - 20.32%
Risk-free rate	1.14% - 1.59%	1.78% - 2.41%
Distribution yield	4.02% - 4.61%	5.10% - 5.94%

13. Segmented information:

Chartwell monitors and operates its Canadian Retirement and Canadian Long-Term Care Operations separately. The accounting policies of each of the segments are the same as those for Chartwell. These segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column shows the adjustments to account for these joint ventures using the equity method as applied in these 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 RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Segmented information (continued):

	Three months ended September 30, 2016							
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing operations								
Revenue:								
Resident Management and other fees	\$ 153,610	\$ 56,323	\$ –	\$ 209,933	\$ –	\$ 209,933	\$ (30,245)	\$ 179,688
Lease revenue from joint ventures	–	–	–	–	2,163	2,163	–	2,163
Interest on loans receivable	–	–	–	–	–	–	8,529	8,529
	–	–	–	–	266	266	–	266
	153,610	56,323	–	209,933	2,429	212,362	(21,716)	190,646
Expenses:								
Direct operating General, administrative and trust	91,804	49,095	–	140,899	–	140,899	(18,016)	122,883
	–	–	–	–	8,264	8,264	–	8,264
	91,804	49,095	–	140,899	8,264	149,163	(18,016)	131,147
Income (loss) before the undernoted ⁽¹⁾								
	61,806	7,228	–	69,034	(5,835)	63,199	(3,700)	59,499
Finance costs:								
Contractual interest	(13,795)	(2,571)	–	(16,366)	(1,355)	(17,721)	577	(17,144)
Other	627	257	–	884	(389)	495	19	514
Other income (expense):								
Interest	18	791	–	809	(34)	775	(21)	754
Other	(4,648)	(67)	–	(4,715)	(462)	(5,177)	(3)	(5,180)
Depreciation and amortization	(37,274)	(2,314)	–	(39,588)	(350)	(39,938)	1,983	(37,955)
Share of net income from joint ventures	–	–	–	–	–	–	1,759	1,759
Changes in fair values of financial instruments and foreign exchange gains (losses)	624	–	–	624	168	792	(614)	178
	(54,448)	(3,904)	–	(58,352)	(2,422)	(60,774)	3,700	(57,074)
Net income (loss) from continuing operations								
	7,358	3,324	–	10,682	(8,257)	2,425	–	2,425
Net income from discontinued operations, net of income taxes								
	–	–	5	5	–	5	–	5
Net income (loss)								
	\$ 7,358	\$ 3,324	\$ 5	\$ 10,687	\$ (8,257)	\$ 2,430	\$ –	\$ 2,430
Expenditures for non-current assets:								
Business combination	\$ 31,536	\$ –	\$ –	\$ 31,536	\$ –	\$ 31,536	\$ –	\$ 31,536
Capital additions	25,293	2,468	–	27,761	601	28,362	(110)	28,252

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

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Segmented information (continued):

	Nine months ended September 30, 2016							
	Canadian Retirement Operations	Canadian Long Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing operations								
Revenue:								
Resident Management and other fees	\$ 455,112	\$ 166,271	\$ –	\$ 621,383	\$ –	\$ 621,383	\$ (89,655)	\$ 531,728
Lease revenue from joint ventures	–	–	–	–	6,236	6,236	–	6,236
Interest on loans receivable	–	–	–	–	–	–	25,275	25,275
	–	–	–	–	970	970	–	970
	455,112	166,271	–	621,383	7,206	628,589	(64,380)	564,209
Expenses:								
Direct operating General, administrative and trust	276,765	144,999	–	421,764	–	421,764	(54,714)	367,050
	–	–	–	–	25,611	25,611	–	25,611
	276,765	144,999	–	421,764	25,611	447,375	(54,714)	392,661
Income (loss) before the undernoted ⁽¹⁾	178,347	21,272	–	199,619	(18,405)	181,214	(9,666)	171,548
Finance costs:								
Contractual interest	(41,830)	(7,840)	–	(49,670)	(5,249)	(54,919)	1,809	(53,110)
Other	1,094	783	–	1,877	(1,026)	851	63	914
Other income (expense):								
Interest	68	2,336	–	2,404	39	2,443	(67)	2,376
Other	(2,416)	(3,189)	–	(5,605)	(483)	(6,088)	(121)	(6,209)
Depreciation and amortization	(105,424)	(7,576)	–	(113,000)	(1,076)	(114,076)	5,855	(108,221)
Share of net income from joint ventures	–	–	–	–	–	–	2,862	2,862
Changes in fair values of financial instruments and foreign exchange gains (losses)	545	–	–	545	(23,506)	(22,961)	(735)	(23,696)
	(147,963)	(15,486)	–	(163,449)	(31,301)	(194,750)	9,666	(185,084)
Net income (loss) from continuing operations	30,384	5,786	–	36,170	(49,706)	(13,536)	–	(13,536)
Net income from discontinued operations, net of income taxes	–	–	3,279	3,279	–	3,279	–	3,279
Net income (loss)	\$ 30,384	\$ 5,786	\$ 3,279	\$ 39,449	\$ (49,706)	\$ (10,257)	\$ –	\$ (10,257)
Expenditures for non-current assets:								
Business combination	\$ 230,130	\$ –	\$ –	\$ 230,130	\$ –	\$ 230,130	\$ –	\$ 230,130
Capital additions	71,123	4,779	–	75,902	3,259	79,161	(855)	78,306

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

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Segmented information (continued):

	Three months ended September 30, 2015							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing operations								
Revenue:								
Resident Management and other fees	\$ 132,918	\$ 55,513	\$ –	\$ 188,431	\$ –	\$ 188,431	\$ (25,922)	\$ 162,509
Lease revenue from joint ventures	–	–	–	–	1,925	1,925	–	1,925
Interest on loans receivable	–	–	–	–	–	–	8,299	8,299
	–	–	–	–	355	355	–	355
	132,918	55,513	–	188,431	2,280	190,711	(17,623)	173,088
Expenses:								
Direct operating	82,828	48,436	–	131,264	–	131,264	(15,702)	115,562
General, administrative and trust	–	–	–	–	7,003	7,003	–	7,003
	82,828	48,436	–	131,264	7,003	138,267	(15,702)	122,565
Income (loss) before the undernoted ⁽¹⁾	50,090	7,077	–	57,167	(4,723)	52,444	(1,921)	50,523
Finance costs:								
Contractual interest	(12,593)	(2,736)	–	(15,329)	(2,335)	(17,664)	244	(17,420)
Other	64	250	–	314	(288)	26	8	34
Other income (expense):								
Interest	29	808	–	837	51	888	(23)	865
Other	(7,104)	(63)	–	(7,167)	(1,038)	(8,205)	(39)	(8,244)
Depreciation and amortization	(25,784)	(2,674)	–	(28,458)	(484)	(28,942)	778	(28,164)
Share of net income from joint ventures	–	–	–	–	–	–	966	966
Changes in fair values of financial instruments and foreign exchange gains (losses)	13	–	–	13	(863)	(850)	(13)	(863)
Income (loss) before income taxes	4,715	2,662	–	7,377	(9,680)	(2,303)	–	(2,303)
Income tax expense	–	–	–	–	(2,007)	(2,007)	–	(2,007)
Net income (loss) from continuing operations	4,715	2,662	–	7,377	(11,687)	(4,310)	–	(4,310)
Net loss from discontinued operations, net of income taxes	–	–	(458)	(458)	–	(458)	–	(458)
Net income (loss)	\$ 4,715	\$ 2,662	\$ (458)	\$ 6,919	\$ (11,687)	\$ (4,768)	\$ –	\$ (4,768)
Expenditures for non-current assets:								
Business combination	\$ 268,521	\$ –	\$ –	\$ 268,521	\$ –	\$ 268,521	\$ –	\$ 268,521
Capital additions	12,567	2,195	–	14,762	363	15,125	(369)	14,756

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

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Segmented information (continued):

Nine months ended September 30, 2015								
	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing operations								
Revenue:								
Resident Management and other fees	\$ 386,129	\$ 162,312	\$ –	\$ 548,441	\$ –	\$ 548,441	\$ (77,940)	\$ 470,501
Lease revenue from joint ventures	–	–	–	–	5,838	5,838	–	5,838
Interest on loans receivable	–	–	–	–	–	–	24,701	24,701
	–	–	–	–	781	781	–	781
	386,129	162,312	–	548,441	6,619	555,060	(53,239)	501,821
Expenses:								
Direct operating General, administrative and trust	248,207	141,516	–	389,723	–	389,723	(48,690)	341,033
	–	–	–	–	23,190	23,190	–	23,190
	248,207	141,516	–	389,723	23,190	412,913	(48,690)	364,223
Income (loss) before the undernoted ⁽¹⁾								
	137,922	20,796	–	158,718	(16,571)	142,147	(4,549)	137,598
Finance costs:								
Contractual interest	(38,675)	(8,367)	–	(47,042)	(7,452)	(54,494)	878	(53,616)
Other	(192)	758	–	566	(995)	(429)	36	(393)
Other income (expense):								
Interest	102	2,476	–	2,578	94	2,672	(75)	2,597
Other	6,011	(197)	–	5,814	(1,076)	4,738	(26)	4,712
Depreciation and amortization	(74,951)	(6,337)	–	(81,288)	(1,136)	(82,424)	2,403	(80,021)
Share of net income from joint ventures	–	–	–	–	–	–	1,259	1,259
Changes in fair values of financial instruments and foreign exchange gains (losses)	(175)	–	–	(175)	4,261	4,086	74	4,160
Income (loss) before income taxes								
	30,042	9,129	–	39,171	(22,875)	16,296	–	16,296
Income tax expense								
	–	–	–	–	(2,796)	(2,796)	–	(2,796)
Net income (loss) from continuing operations								
	30,042	9,129	–	39,171	(25,671)	13,500	–	13,500
Net income from discontinued operations, net of income taxes								
	–	–	348,171	348,171	–	348,171	–	348,171
Net income (loss)								
	\$ 30,042	\$ 9,129	\$ 348,171	\$ 387,342	\$ (25,671)	\$ 361,671	\$ –	\$ 361,671
Expenditures for non-current assets:								
Business combination	\$ 330,697	\$ –	\$ –	\$ 330,697	\$ –	\$ 330,697	\$ 40,075	\$ 370,772
Capital additions	30,449	3,498	11,417	45,364	1,715	47,079	(1,147)	45,932

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

13. Segmented information (continued):

September 30, 2016	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment Total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 2,555,664	\$ 265,170	\$ 2,820,834	\$ 21,779	\$ 2,842,613	\$ (77,740)	\$ 2,764,873
Total liabilities	\$ 1,554,896	\$ 200,191	\$ 1,755,087	\$ 256,571	\$ 2,011,658	\$ (77,740)	\$ 1,933,918

14. Financial instruments:

Classification, carrying values and fair values of financial instruments:

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

	September 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial assets recorded at amortized cost:				
Loans receivable	\$ 10,523	\$ 10,523	\$ 15,764	\$ 15,764
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	1,606,126	1,701,227	1,531,358	1,610,416
Credit facilities	182,000	182,000	32,000	32,000

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

14. Financial instruments (continued):

Fair value represents management's estimate of the 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 above table excludes cash and cash equivalents, trade and other receivables, accounts payable and other liabilities, and distributions payable as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value.

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

The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At September 30, 2016, the mortgages payable were discounted using rates between 1.67% and 3.91% (December 31, 2015 - 1.63% and 4.30%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

The fair value of the credit facilities approximates its carrying value and is considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

15. Finance costs:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Contractual interest expense				
on mortgages	\$ 15,792	\$ 14,639	\$ 47,867	\$ 45,723
Interest expense on				
convertible debentures	–	1,938	2,611	5,752
Credit facilities and other				
interest expense	1,352	843	2,632	2,141
	17,144	17,420	53,110	53,616
Interest capitalized to properties				
under development	(368)	(54)	(666)	(168)
Amortization of financing				
costs and mark-to-market				
adjustment on assumption				
of mortgages payable	(375)	(206)	(923)	(114)
Distributions on Class B Units				
recorded as interest expense	229	226	675	675
Total finance costs	\$ 16,630	\$ 17,386	\$ 52,196	\$ 54,009

16. Other income (expense):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest and other income	\$ 754	\$ 865	\$ 2,376	\$ 2,597
Property lease expense	(122)	(137)	(319)	(334)
Impairment of PP&E	(4,500)	(755)	(7,500)	(755)
Gain on sale of assets	385	52	1,918	4,716
Gain recorded on remeasurement				
of previously held interest on				
acquisition (note 2)	–	–	5,187	10,452
Transaction costs arising				
on business acquisitions				
and dispositions	(943)	(7,404)	(5,495)	(9,367)
Other income (expense)	\$ (4,426)	\$ (7,379)	\$ (3,833)	\$ 7,309

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

16. Other income (expense) (continued):

For the nine months ended September 30, 2016, Chartwell recorded an impairment provision of \$3,000 on one long-term care property located in Ontario and \$4,500 on one retirement property located in Quebec.

On June 27, 2016, Chartwell sold three non-core retirement residences in Quebec. On closing, the purchaser assumed mortgages encumbering these properties in the amount of \$17,872 bearing interest of 3.99%. Under the terms of the transaction an amount of \$1,721 will be paid to the purchaser upon satisfaction of certain conditions subsequent to closing. The amounts due to the purchaser are included in accounts payable and other liabilities in the consolidated balance sheet. Chartwell recorded a gain on sale of these assets of \$686.

For the nine months ended September 30, 2016, Chartwell completed other disposals of assets and recorded a gain of \$1,232.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Changes in fair value of convertible debentures	\$ –	\$ (5,720)	\$ (11,441)	\$ (3,358)
Changes in fair value of interest rate swaps	40	299	(103)	(101)
Foreign exchange gains	110	11,238	63	9,643
Changes in fair value of EUPP option component	(129)	(1,234)	(4,585)	(872)
Changes in fair value of Class B Units	(65)	(1,313)	(5,005)	(574)
Changes in fair value of DTUs	(168)	(721)	(2,959)	(578)
Changes in fair value of foreign exchange swaps	–	(3,412)	–	–
Changes in fair value of deferred purchase consideration	(29)	–	(85)	–
Changes in fair value of net operating income guarantee	419	–	419	–
Changes in fair values of financial instruments and foreign exchange gains (losses)	\$ 178	\$ (863)	\$ (23,696)	\$ 4,160

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2016 and 2015
(Unaudited)

18. Income taxes:

As a result of the acquisition of a Canadian corporate subsidiary, Chartwell recorded a deferred tax liability of \$1,518 for the nine months ended September 30, 2016. The deferred tax liability is primarily attributable to the temporary differences between the accounting and tax basis of the assets held by the subsidiary.

Chartwell recorded a current tax recovery of \$3,141 for the nine months ended September 30, 2016 in discontinued operations related to the prior year sale of its U.S. subsidiary (note 10). The current tax recovery is attributable to a change in estimate of the U.S. taxes payable on the disposition of the shares of the U.S. subsidiary.

Chartwell recorded a current tax expense of \$57,897 in discontinued operations for the nine months ended September 30, 2015 related to the U.S. taxes payable on the disposition of the shares of the U.S. subsidiary. In addition, Chartwell recorded deferred tax expense of \$2,796 in continuing operations for the three and nine months ended September 30, 2015 related to fair value fluctuation on the foreign exchange swap arrangement in a Canadian corporate subsidiary.

For the three months ended September 30, 2015, Chartwell also reversed the previously recorded deferred tax expense of \$789 related to temporary difference on the fair value fluctuation on the foreign exchange swap arrangement.