

Consolidated Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

Years ended December 31, 2017 and 2016



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Retirement Residences

We have audited the accompanying consolidated financial statements of Chartwell Retirement Residences, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chartwell Retirement Residences as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

February 22, 2018  
Toronto, Canada

# CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets  
(In thousands of Canadian dollars)

December 31, 2017 and 2016

	Note	2017	2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 44,751	\$ 30,050
Trade and other receivables		11,840	18,339
Capital funding receivable	6	5,981	5,663
Other assets	7	24,860	14,900
Assets held for sale	15	10,113	–
<b>Total current assets</b>		<b>97,545</b>	<b>68,952</b>
Non-current assets:			
Other assets	7	2,863	3,449
Loans receivable	8	6,753	10,528
Capital funding receivable	6	48,530	54,510
Investment in joint ventures	9(b)	37,564	30,822
Intangible assets	5	56,034	57,598
Property, plant and equipment ("PP&E")	4	2,764,610	2,570,848
<b>Total non-current assets</b>		<b>2,916,354</b>	<b>2,727,755</b>
<b>Total assets</b>		<b>\$ 3,013,899</b>	<b>\$ 2,796,707</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Accounts payable and other liabilities	12	\$ 143,981	\$ 121,870
Distributions payable		10,203	9,046
Mortgages payable	10(a)	165,300	143,695
Deferred consideration on business combinations		1,760	–
Liabilities related to assets held for sale	15	6,641	–
<b>Total current liabilities</b>		<b>327,885</b>	<b>274,611</b>
Non-current liabilities:			
Mortgages payable	10(a)	1,449,032	1,498,077
Credit facilities	10(b)	–	172,000
Senior unsecured debentures	11	198,593	–
Deferred consideration on business combinations		–	1,647
Class B Units of Chartwell Master Care LP ("Class B Units")	16	26,808	23,871
Deferred tax liabilities	25	1,414	1,518
<b>Total non-current liabilities</b>		<b>1,675,847</b>	<b>1,697,113</b>
<b>Total liabilities</b>		<b>2,003,732</b>	<b>1,971,724</b>
Unitholders' equity	17	1,010,167	824,983
Subsequent events	29		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 3,013,899</b>	<b>\$ 2,796,707</b>

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Huw Thomas" \_\_\_\_\_ Trustee      "Sidney Robinson" \_\_\_\_\_ Trustee

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

	Note	2017	2016
<b>Revenue:</b>			
Resident		\$ 752,775	\$ 714,380
Management and other fees		8,861	8,777
Lease revenue from joint ventures	9(b)	34,700	33,803
Interest income		3,958	4,427
		<u>800,294</u>	<u>761,387</u>
<b>Expenses (income):</b>			
Direct property operating	28	520,376	495,227
Depreciation of PP&E	4	151,565	145,586
Amortization of intangible assets	5	1,784	1,169
Share of net income from joint ventures	9(b)	(4,716)	(4,691)
General, administrative and trust	28	38,007	33,838
Other expense	22	6,176	5,160
Finance costs	23	71,122	68,778
Change in fair values of financial instruments and foreign exchange losses	24	2,987	17,003
		<u>787,301</u>	<u>762,070</u>
Income (loss) before income taxes		12,993	(683)
Income tax benefit (expense):	25		
Current		(15)	(27)
Deferred		104	—
		<u>89</u>	<u>(27)</u>
Income (loss) from continuing operations		13,082	(710)
<b>Discontinued operations:</b>			
Net income from discontinued operations, net of income taxes	14	—	5,506
<b>Net income and comprehensive income</b>		<u>\$ 13,082</u>	<u>\$ 4,796</u>

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

2017	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated gains (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2016	\$ 1,973,499	\$ 16,588	\$ (12,004)	\$ (154,508)	\$ (1,005,151)	\$ 6,559	\$ 824,983
Net income	–	–	–	13,082	–	–	13,082
Distributions to unitholders	–	–	–	–	(112,025)	–	(112,025)
Issuance of Trust Units pursuant to public offering	258,482	–	–	–	–	–	258,482
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	20,115	–	–	–	–	–	20,115
Trust Units issued on exchange of Class B Units	157	–	–	–	–	–	157
Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	2,759	(375)	(101)	–	–	(65)	2,218
Trust Units issued on settlement of Deferred Trust Units ("DTUs")	2,412	–	–	–	–	–	2,412
Interest on EUPP receivable	–	–	(118)	–	–	–	(118)
Distributions applied against EUPP receivable	–	–	861	–	–	–	861
Unitholders' equity, December 31, 2017	\$ 2,257,424	\$ 16,213	\$ (11,362)	\$ (141,426)	\$ (1,117,176)	\$ 6,494	\$ 1,010,167

During the year ended December 31, 2017, distributions were declared and paid at \$0.046818 per unit per month for the months of January and February, and \$0.048 per unit per month from March to December. In the first two months of 2018, distributions were declared at \$0.048 per unit per month totalling \$16,763.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

2016	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated gains (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 income	–	–	–	4,796	–	–	4,796
Distributions to unitholders	–	–	–	–	(104,701)	–	(104,701)
Trust Units issued under the DRIP	19,725	–	–	–	–	–	19,725
Trust Units issued on conversion of convertible debentures	173,194	–	–	–	–	–	173,194
Trust Units issued on exchange of Class B Units	202	–	–	–	–	–	202
Trust Units issued under the EUPP, net of cancellations and Trust Units released on settlement of EUPP receivable	1,882	(301)	(96)	–	–	13	1,498
Interest on EUPP receivable	–	–	(125)	–	–	–	(125)
Distributions applied against EUPP receivable	–	–	874	–	–	–	874
Unitholders' equity, December 31, 2016	\$ 1,973,499	\$ 16,588	\$ (12,004)	\$ (154,508)	\$ (1,005,151)	\$ 6,559	\$ 824,983

During the year ended December 31, 2016, distributions were declared and paid at \$0.0459 per unit per month for the months of January and February, and \$0.046818 per unit per month from March to December.

See accompanying notes to consolidated financial statements.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

	Note	2017	2016
Cash provided by (used in):			
Operating activities:			
Net income		\$ 13,082	\$ 4,796
Items not affecting cash:			
Depreciation and amortization		153,349	146,755
Finance costs		71,122	68,778
Other expense		6,176	3,439
Transaction costs arising from business acquisitions and dispositions		(7,540)	(5,400)
Interest income		(3,958)	(4,427)
Change in fair values of financial instruments and foreign exchange losses (gains)		2,987	17,003
Current income taxes		15	(3,758)
Deferred income taxes benefit		(104)	–
Share of net income from joint ventures		(4,716)	(4,691)
Other		1,240	1,484
Change in trade and other receivables		9,556	(4,299)
Change in other assets		(6,953)	3,224
Change in accounts payable and other liabilities		15,679	4,243
		249,935	227,147
Interest income and other income received		4,836	4,338
Interest paid		(72,813)	(73,112)
		181,958	158,373
Financing activities:			
Proceeds from public offering		258,482	–
Proceeds from mortgage financing		311,316	208,970
Mortgage repayments		(299,227)	(106,243)
Scheduled mortgage principal repayments		(57,856)	(52,651)
Proceeds from issuance of senior unsecured debentures		200,000	–
Changes to credit facilities		(172,000)	140,000
Net additions to finance costs		(14,912)	(6,308)
Distributions paid		(90,010)	(83,424)
		135,793	100,344
Investing activities:			
Acquisition of assets under business combinations		(167,558)	(131,192)
Additions to PP&E and intangible assets		(159,031)	(122,350)
Proceeds from disposal of PPE		21,792	2,460
Proceeds from capital funding receivable		5,662	6,289
Collection of loans receivable		1,487	7,925
Advances of loans receivable		(3,569)	(2,689)
Change in restricted cash		193	26
Contributions to joint ventures	9(b)	(9,202)	(1,053)
Distributions received from joint ventures	9(b)	7,176	8,915
		(303,050)	(231,669)
Increase in cash		14,701	27,048
Cash and cash equivalents, beginning of year		30,050	3,002
Cash and cash equivalents, end of year		\$ 44,751	\$ 30,050

See accompanying notes to consolidated financial statements.



# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

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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.

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 56.9% 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. Chartwell also has direct ownership of 43.1% 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.

## 1. 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 February 22, 2018, the Board of Trustees authorized the consolidated financial statements for issue.

# 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

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## 1. Basis of preparation (continued):

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

### (d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the 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 material adjustment within the future financial year are included in the following notes:

- (i) note 2(e) - Impairment of property, plant and equipment;
- (ii) notes 2(e) and 5 - Impairment of indefinite life intangible assets; and

# 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

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## 1. Basis of preparation (continued):

- (iii) notes 2(k) and 25 - Income taxes; availability of future taxable profit for the recognition of deferred income tax assets.

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

- (i) note 2(d)(i) - Intangible assets - licenses: assessment of indefinite useful life.

## 2. Significant accounting policies:

- (a) Basis of consolidation:

- (i) Transactions eliminated on consolidation:

The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint 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.

# 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

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## 2. Significant accounting policies (continued):

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 profit or loss is included in the consolidated statements of comprehensive income.

### (iii) Business combinations:

Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill represents the cost of acquired net assets in excess of their fair value. If the fair value of the net identifiable assets acquired exceeds the fair value of consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities incurred in connection with the acquisition are expensed as incurred.

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

### (b) Foreign currency:

#### (i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies 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)

Years ended December 31, 2017 and 2016

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## 2. Significant accounting policies (continued):

### (ii) Foreign operations:

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

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

Exchange gains and losses arising from translation of the financial statements of foreign operations are deferred and included in other comprehensive income. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss.

### (c) Property, plant and equipment:

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

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

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

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

# 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

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## 2. Significant accounting policies (continued):

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:

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

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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 when Chartwell has transferred to the purchaser the significant risk and rewards of ownership of the PP&E and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

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, is amortized over the expected term of the resident occupancy. Resident contracts are recorded as a component of buildings.

# 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

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## 2. Significant accounting policies (continued):

### (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 properties 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) Other intangible assets:

Other intangible assets consist of software costs and management contracts.

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

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

# 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

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## 2. 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:

#### (i) Financial assets:

Financial assets carried at amortized cost are assessed at each reporting date to determine whether there is objective evidence indicating the assets might be impaired. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due or indications that a debtor or issuer will enter bankruptcy.

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

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



# 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

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## 2. Significant accounting policies (continued):

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

The carrying amounts of Chartwell's PP&E are assessed at each reporting date to determine if any events have occurred that would indicate the PP&E may be impaired. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash generating unit ("CGU") is the higher of (a) fair value less costs to sell, and (b) value in use. The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. 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. Chartwell completes the assessment of fair value using financial performance and current capitalization rates.

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.

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.

# 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

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## 2. Significant accounting policies (continued):

### (f) Capital funding receivable:

Grants received from the Government of Ontario for the construction costs of long-term care properties 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.

### (g) Assets held for sale and discontinued operations:

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 to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss until the completion of sale.

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 consolidated statement of comprehensive income (loss) is restated as if the operations had been discontinued from the start of the comparative year.

# 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

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## 2. Significant accounting policies (continued):

(h) Financial instruments:

(i) Non-derivative financial assets:

Chartwell has classified its non-derivative financial assets into the following categories: loans and receivables, and financial assets at FVTPL.

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

Receivables related to income guarantees are classified as FVTPL and any gains and losses arising on remeasurement are recognized in profit or loss.

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

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

# 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

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## 2. Significant accounting policies (continued):

### (ii) Non-derivative financial liabilities:

Non-derivative financial liabilities have been classified into the following categories:

Other financial liabilities:

Other financial liabilities primarily consist of accounts payable and other liabilities, distributions payable, mortgages payable, senior unsecured debentures and credit facilities. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

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

Financial liabilities at FVTPL:

Financial liabilities elected to be measured at fair value are designated as FVTPL.

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

The liabilities related to unit-based payment plans, Class B Units and deferred consideration are designated as FVTPL. Any gains or losses arising on remeasurement are recognized in profit or loss. Interest paid on convertible debentures and distributions paid to Class B unitholders are recognized as interest expense under finance costs in profit or loss.

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

# 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

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## 2. Significant accounting policies (continued):

### (iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Derivative financial instruments are subsequently remeasured to their fair value at the end of each reporting date, with any resulting gain or loss recognized in profit or loss immediately.

Chartwell enters into interest rate swap arrangements 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.

### (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)

Years ended December 31, 2017 and 2016

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## 2. 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.

#### 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)

Years ended December 31, 2017 and 2016

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## 2. Significant accounting policies (continued):

### (ii) Unit-based payment plans:

Chartwell maintains an EUPP, Deferred Trust Unit Plan ("DTU"), and Restricted Unit Plans ("RTU") for its employees, directors and Trustees. While the EUPP and DTU Plan require settlement in Trust Units and RTU plan is settled in cash, all these plans are accounted for as cash-settled awards, as Chartwell's Trust Units are puttable. The fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

### (k) Income taxes:

Income tax expense (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 other comprehensive income (loss).

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

Chartwell is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada). 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)

Years ended December 31, 2017 and 2016

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## 2. Significant accounting policies (continued):

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

Judgement 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)

Years ended December 31, 2017 and 2016

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## 2. Significant accounting policies (continued):

### (l) Revenue recognition:

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

### (i) Retirement community resident revenue:

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

### (ii) Long-term care community resident revenue:

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

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

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

# 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

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## 2. Significant accounting policies (continued):

### (iii) Fee revenue:

Chartwell provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services to third parties and is recognized when services are performed in accordance with the terms of the management contract.

### (iv) Lease revenue from joint ventures:

Chartwell earns revenue under lease arrangements with operating entities which are jointly owned with Welltower Inc. (note 9). The leases are accounted for as operating leases and lease revenue is recognized over the term of the underlying leases.

### (m) Lease payments:

Chartwell is obligated to make payments under land and equipment leases. Such leases are classified as operating leases and not recognized in the consolidated balance sheets as substantially all of the risks and rewards of ownership are not transferred to Chartwell. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### (n) IFRS amendments adopted in 2017:

#### (i) Amendments to IAS 7, Statement of Cash Flows ("IAS 7"):

The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Chartwell adopted the amendments to IAS 7 in 2017 (note 13).

# 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

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## 2. Significant accounting policies (continued):

- (ii) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12, Income Taxes ("IAS 12")):

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. Chartwell adopted the amendments to IAS 12 on January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

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

- (i) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2, Share-based Payment, ("IFRS 2")):

The amendments to IFRS 2 clarify how to account for certain types of share-based payment transactions and apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled, share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Chartwell will adopt the amendments to IFRS 2 in its consolidated financial statements for the year beginning on January 1, 2018 and does not expect the amendment will have a material impact on the consolidated financial statements.

# 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

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## 2. Significant accounting policies (continued):

### (ii) IFRS 9, Financial Instruments ("IFRS 9"):

Chartwell will adopt IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 will generally be applied retrospectively without restatement of comparative information.

IFRS 9 contains a new classification and measurement approach for financial assets to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 category of held to maturity, loans and receivables and available for sale.

For impairment of financial assets, IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

# 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

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## 2. Significant accounting policies (continued):

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. Chartwell does not currently apply hedge accounting in its consolidated financial statements.

Management does not expect the adoption of IFRS 9 to have a material impact on the consolidated financial statements.

### (iii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue - Barter Transactions Involving Advertising Services. Chartwell will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018.

IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

Chartwell will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. Chartwell plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at January 1, 2018. As a result, Chartwell will not apply the requirements of IFRS 15 to the comparative period presented. Management does not expect that the adoption of IFRS 15 will have a material impact on the consolidated financial statements.

However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease (i.e. a non-lease component).

# 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

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## 2. Significant accounting policies (continued):

### (iv) IFRS 16, Leases ("IFRS 16"):

IFRS 16 will replace IAS 17, Leases ("IAS 17"). The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16.

Chartwell is still evaluating the impact of IFRS 16. In particular, Chartwell is assessing how the new standard may impact the allocation of consideration to each lease and non-lease component. The standard requires this allocation to be completed in accordance with the guidance in IFRS 15, that is, on the basis of relative standalone selling prices.

### (v) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"):

On June 7, 2017, the IASB issued IFRIC 23, which provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

IFRIC 23 requires (i) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (iii) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

Chartwell intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

# 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

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## 2. Significant accounting policies (continued):

(vi) Annual Improvements to IFRS Standards (2015-2017) Cycle:

On December 12, 2017, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12, Income Taxes - to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23, Borrowing Costs - to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

Chartwell intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

# 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

## 3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2017:

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred. The acquisitions were accounted for as business combinations under IFRS 3, Business Combinations:

Date of acquisition	February 1, 2017	March 1, 2017	July 4, 2017	July 20 2017	
Segment	Canadian Retirement Operations				
Location	Province of Ontario	Province of Ontario	Province of Ontario	Province of Quebec	
Number of properties (suites)	1 (107 suites)	1 (66 suites)	3 (522 suites)	1 (343 suites)	Total
PP&E	\$ 22,000	\$ 6,950	\$ 120,750	\$ 59,927	\$ 209,627
Net assets acquired	\$ 22,000	\$ 6,950	\$ 120,750	\$ 59,927	\$ 209,627
Cash consideration	\$ 22,000	\$ 6,950	\$ 120,750	\$ 17,858	\$ 167,558
Construction loan assumed	—	—	—	37,060	37,060
Mezzanine loan settled	—	—	—	5,857	5,857
Income support receivable	—	—	—	(848)	(848)
Total consideration transferred	\$ 22,000	\$ 6,950	\$ 120,750	\$ 59,927	\$ 209,627



# 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

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### 3. Acquisitions (continued):

On February 1, 2017, Chartwell acquired a 100% interest in a 107-suite retirement residence located in Vineland, Ontario. The purchase price before working capital adjustments and closing costs was \$22,000 and was settled in cash. The property has contributed revenue of \$4,110 and net loss of \$1,322 since acquisition. Chartwell incurred acquisition-related costs of \$881, which have been expensed in the consolidated statements of comprehensive income.

On March 1, 2017, Chartwell acquired a 100% interest in a 66-suite retirement residence located in Thunder Bay, Ontario. The purchase price before working capital adjustments and closing costs was \$6,950 and was settled in cash. The property has contributed revenue of \$1,456 and net loss of \$449 since acquisition. Chartwell incurred acquisition-related costs of \$158, which have been expensed in the consolidated statements of comprehensive income.

On July 4, 2017, Chartwell acquired a 100% interest in a portfolio of three properties in Ontario totalling 522 suites. The purchase price before working capital adjustments and closing costs was \$120,750 and was settled in cash. The properties have contributed revenue of \$11,104 and net loss of \$2,895 since acquisition. Chartwell incurred acquisition-related costs of \$2,762 which have been expensed in the consolidated statements of comprehensive income.

On July 20, 2017, Chartwell acquired an 85% interest in a 343-suite retirement residence located in Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price before working capital and closing costs was \$60,775 and was settled through assumption of a construction loan of \$37,060, settlement of the Chartwell mezzanine loan to Batimo of \$5,857 and cash. Batimo has committed to provide income support if the operating results fall below a certain threshold with an estimated fair value of \$848. This amount has been recorded as a reduction of consideration paid. The property has contributed revenue of \$3,559 and net loss of \$926 since acquisition. Chartwell incurred acquisition-related costs of \$1,199, which have been expensed in the consolidated statements of comprehensive income.

# 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

## 3. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2016:

The following table summarizes the allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred. The acquisitions were accounted for as business combinations under IFRS 3, Business Combinations:

Date of acquisition	March 15, 2016	April 21, 2016	May 2, 2016	June 2, 2016	September 1, 2016				
Segment	Canadian Retirement Operations								
Location	Province of Ontario	Province of British Columbia	Province of Ontario	Province of Ontario	Province of Ontario			Step accounting adjustments <sup>(1)</sup>	Total
Number of properties (suites)	1 (105 suites)	1 (97 suites) <sup>(1)</sup>	1 (109 suites)	1 (127 suites)	1 (121 suites)	Subtotal			
PP&E	\$ 66,166	\$ 11,841	\$ 37,405	\$ 70,324	\$ 31,501	\$ 217,237	\$ 11,841	\$ 229,078	
Goodwill	–	1,017	–	–	–	1,017	–	1,017	
Deferred tax liability	–	(1,518)	–	–	–	(1,518)	–	(1,518)	
<b>Net assets acquired</b>	<b>\$ 66,166</b>	<b>\$ 11,340</b>	<b>\$ 37,405</b>	<b>\$ 70,324</b>	<b>\$ 31,501</b>	<b>\$ 216,736</b>	<b>\$ 11,841</b>	<b>\$ 228,577</b>	
Cash consideration	\$ 30,251	\$ 5,925	\$ 17,252	\$ 46,263	\$ 31,501	\$ 131,192	\$ –	\$ 131,192	
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	
	\$ 66,166	\$ 11,340	\$ 37,405	\$ 70,324	\$ 31,501	\$ 216,736	\$ 11,841	\$ 228,577	

<sup>(1)</sup> 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 Consolidated Financial Statements (continued)  
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2017 and 2016

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### 3. 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 working capital adjustments, 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 \$5,028 and net loss of \$3,725 since the acquisition. Chartwell incurred acquisition-related costs of \$1,808, which have been expensed in the consolidated statements of comprehensive income.

On April 21, 2016, Chartwell acquired from its partner all outstanding shares of a corporation that owns a 50% interest in a 97-suite Chartwell Kamloops Retirement Residence ("Kamloops"). The purchase price, before closing costs, 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 remeasurement has resulted in an increase in value of \$5,187, which has been recognized as a gain in other expense (income) in consolidated statements of comprehensive income. Kamloops has contributed revenue of \$2,660 and net income of \$122 since the acquisition date. Chartwell incurred acquisition-related costs of \$19, which have been expensed in the consolidated statements of comprehensive income.

On May 2, 2016, Chartwell acquired a 100% interest in a 109-suite retirement residence located in Brockville, Ontario. The purchase price before working capital adjustments, closing costs and mortgage mark-to-market adjustment 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 \$3,762 and net loss of \$1,342 since acquisition. Chartwell incurred acquisition-related costs of \$709, which have been expensed in the consolidated statements of comprehensive income.

# 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

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### 3. Acquisitions (continued):

On June 2, 2016, Chartwell acquired a 100% interest in a 127-unit retirement residence located in Ottawa, Ontario. The purchase price before working capital adjustments, closing costs and mortgage mark-to-market adjustment 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 \$4,158 and net loss of \$2,882 since acquisition. Chartwell incurred acquisition-related costs of \$1,910, which have been expensed in the consolidated statements of comprehensive income.

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 and closing costs was \$31,501 and was settled in cash. The property has contributed revenue of \$1,130 and net loss of \$937 since acquisition. Chartwell incurred acquisition-related costs of \$563, which have been expensed in the consolidated statements of comprehensive income.

# 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

## 4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
<b>Cost</b>						
Balance, December 31, 2015	\$ 276,857	\$ 2,567,935	\$ 84,530	\$ 14,745	\$ 18,876	\$ 2,962,943
Additions	–	58,018	11,379	45,423	8,615	123,435
Additions through business combinations	12,155	211,812	4,511	–	600	229,078
Disposals	(4,378)	(37,823)	(1,729)	–	–	(43,930)
Derecognition	–	(218,664)	(1,221)	–	–	(219,885)
Capital subsidy receivable	–	(5,021)	–	–	–	(5,021)
Transfers	426	981	1,177	1,911	(5,034)	(539)
Balance, December 31, 2016	285,060	2,577,238	98,647	62,079	23,057	3,046,081
Additions	26	61,588	12,202	93,386	30	167,232
Additions through business combinations	17,567	184,742	6,678	–	640	209,627
Disposals	(4,175)	(33,665)	(1,077)	–	–	(38,917)
Derecognition	–	(38,165)	(407)	(2,422)	–	(40,994)
Transfers	2,464	53,099	6,809	(61,595)	(1,000)	(223)
Transfers to assets held for sale	(1,190)	(9,362)	(867)	–	–	(11,419)
Balance, December 31, 2017	\$ 299,752	\$ 2,795,475	\$ 121,985	\$ 91,448	\$ 22,727	\$ 3,331,387
<b>Accumulated depreciation and impairment losses</b>						
Balance, December 31, 2015	\$ –	\$ 509,226	\$ 51,927	\$ 2,422	\$ –	\$ 563,575
Depreciation	–	133,039	12,547	–	–	145,586
Disposals	–	(19,020)	(1,413)	–	–	(20,433)
Derecognition	–	(218,664)	(1,221)	–	–	(219,885)
Impairment, net	–	6,390	–	–	–	6,390
Balance, December 31, 2016	–	410,971	61,840	2,422	–	475,233
Depreciation	–	136,905	14,660	–	–	151,565
Disposals	–	(16,872)	(951)	–	–	(17,823)
Derecognition	–	(38,165)	(407)	(2,422)	–	(40,994)
Transfer to assets held for sale	–	(846)	(358)	–	–	(1,204)
Balance, December 31, 2017	\$ –	\$ 491,993	\$ 74,784	\$ –	\$ –	\$ 566,777
<b>Carrying amounts</b>						
Balance, December 31, 2016	\$ 285,060	\$ 2,166,267	\$ 36,807	\$ 59,657	\$ 23,057	\$ 2,570,848
Balance, December 31, 2017	299,752	2,303,482	47,201	91,448	22,727	2,764,610

# 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

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#### 4. Property, plant and equipment (continued):

During the year ended December 31, 2017, two properties were transferred from properties under development to operating (2016 - none).

During the year ended December 31, 2017, Chartwell transferred \$1,000 (2016 - \$3,349) from land held for development to properties under development related to a project that is currently under development.

On February 28, 2017, Chartwell acquired vacant land in Mississauga, Ontario. The purchase price was \$6,571 before closing costs. The purchase price was settled by the issuance of \$500 of Class B Units and cash. This was included in properties under development.

Chartwell capitalized \$2,908 of borrowing costs related to development projects under construction for the year ended December 31, 2017, at an average interest rate of 3.74% (2016 - \$1,085 at an average interest rate of 4.05%).

Since January 1, 2010, the cost and accumulated depreciation of PP&E has been reduced by \$184,492 (2016 - \$176,795) to remove fully amortized resident contracts.

Chartwell completes regular assessments of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E.

For the year ended December 31, 2016, Chartwell recorded impairment provisions of \$7,500 on two properties located in Ontario and Quebec and reversed a previously recorded impairment provision of \$1,110 on one property in Quebec.

# 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

## 5. Intangible assets:

	Goodwill	Licenses	Other <sup>(1)</sup>	Total
<b>Cost</b>				
Balance, December 31, 2015	\$ 8,216	\$ 44,334	\$ 11,512	\$ 64,062
Additions	–	–	10	10
Acquisitions	1,017	–	–	1,017
Disposals	–	–	(1)	(1)
Transfers	–	–	539	539
Balance, December 31, 2016	9,233	44,334	12,060	65,627
Disposals	–	–	(3)	(3)
Transfers	–	–	223	223
Balance, December 31, 2017	\$ 9,233	\$ 44,334	\$ 12,280	\$ 65,847
<b>Accumulated amortization and impairment losses</b>				
Balance, December 31, 2015	\$ –	\$ –	\$ 6,860	\$ 6,860
Amortization	–	–	1,169	1,169
Balance, December 31, 2016	–	–	8,029	8,029
Amortization	–	–	1,784	1,784
Balance, December 31, 2017	\$ –	\$ –	\$ 9,813	\$ 9,813
<b>Carrying amounts</b>				
Balance, December 31, 2016	\$ 9,233	\$ 44,334	\$ 4,031	\$ 57,598
Balance, December 31, 2017	9,233	44,334	2,467	56,034

<sup>(1)</sup>Other intangible assets consist of the allocated cost of acquired management contracts and software costs.

# 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

## 5. Intangible assets (continued):

Chartwell completed its annual impairment assessment of the carrying value of licenses, which are intangible assets with indefinite useful lives, on November 30, 2017, and November 30, 2016. Licenses 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 licenses by comparing the fair value less costs to sell of the related CGUs containing the licenses, determined using the direct capitalization method, 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 analysis include capitalization rates between 8% and 12% derived from a combination of third-party information and the observation of industry trends. Chartwell determined that the fair value less costs to sell exceeded the carrying value of the CGUs for the years ended December 31, 2017 and 2016.

## 6. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	Amount
Balance, December 31, 2015	\$ 61,441
Capital funding increase	5,021
Capital funding applied to receivable	(6,289)
Balance, December 31, 2016	60,173
Capital funding applied to receivable	(5,662)
Balance, December 31, 2017	\$ 54,511
Current	\$ 5,981
Non-current	48,530
	\$ 54,511



# 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

## 6. Capital funding receivable (continued):

The capital funding receivable of \$54,511 (2016 - \$60,173) represents the present value of the funding receivable from the Government of Ontario in respect of 15 long-term care properties. The weighted average remaining term of this funding is approximately 8.2 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 communities for the remaining period. During 2017, capital funding receipts amounted to \$8,555 (2016 - \$9,389) of which \$2,893 (2016 - \$3,100) was recorded as interest income and \$5,662 (2016 - \$6,289) as a reduction of capital funding receivable. During 2016, Chartwell received an increase in capital funding on three long-term care properties in Ontario retroactive to the date of completion. Additional capital funding was recorded as a reduction in PP&E cost.

## 7. Other assets:

	2017	2016
Prepaid expenses and deposits	\$ 17,785	\$ 10,963
Restricted cash	2,366	2,173
Other assets	7,572	5,213
	<u>\$ 27,723</u>	<u>\$ 18,349</u>
Current	\$ 24,860	\$ 14,900
Non-current	2,863	3,449
	<u>\$ 27,723</u>	<u>\$ 18,349</u>

Other assets include receivables of \$2,659 recorded at their fair value, related to income guarantees provided by vendors of certain acquired properties (2016 - \$1,245). Income guarantees are considered Level 3 in the fair value hierarchy. For the year ended December 31, 2017, \$1,295 (2016 - \$2,803) of income guarantees were collected.

Included in prepaid expenses and deposits is \$5,900 related to Chartwell's acquisition of a portfolio of residences in Alberta.

# 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

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## 8. Loans receivable:

	2017	2016
Vendor take back ("VTB") loans	\$ —	\$ 1,457
Mezzanine and other loans	6,753	9,071
	<u>\$ 6,753</u>	<u>\$ 10,528</u>

Mezzanine and other loans are due from Batimo, mature between October 2019 and July 2022, bear interest at rates ranging from 8% to 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.

# 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

## 9. Joint arrangements:

As at December 31, 2017, the following are Chartwell's joint arrangements:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord <sup>(1)</sup>	38	Canada	50%	Joint operation
Chartwell-Welltower Operator <sup>(1)</sup>	38	Canada	50%	Joint venture <sup>(2)</sup>
Batimo	5	Canada	85%	Joint operation
Chartwell Oakville Retirement Residence	1	Canada	50%	Joint venture <sup>(2)</sup>
Chartwell Constantia Retirement Residence	1	Canada	50%	Joint venture <sup>(2)</sup>
Chartwell Riverside Retirement Residence	1	Canada	50%	Joint operation
Chartwell Churchill Retirement Residence	1	Canada	50%	Joint operation
Chartwell Oak Ridges Retirement Residence <sup>(3)</sup>	1	Canada	<sup>(3)</sup>	Joint venture <sup>(2)</sup>
Chartwell Clair Hills Retirement Residence <sup>(3)</sup>	1	Canada	<sup>(3)</sup>	Joint venture <sup>(2)</sup>
The Sumach by Chartwell	1	Canada	45%	Joint operation
Kingston Project	1	Canada	60%	Joint venture <sup>(2)</sup>

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

<sup>(2)</sup> These joint arrangements have been structured through separate legal vehicles.

<sup>(3)</sup> 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. In January 2019, Chartwell will be required to acquire all outstanding Class R Units. The purchase price will be equal to the excess of the actual combined net operating income achieved for the year ended December 31, 2018, over the guaranteed income for that year, divided by 6.25%.

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.

# 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

## 9. Joint arrangements (continued):

- (a) At December 31, 2017, Chartwell has an interest in a number of joint operations, which have been accounted for under the proportionate consolidation method. The following is the summarized financial information in respect of the interests in these joint operations, which is included line by line in the consolidated financial statements at Chartwell's share:

	2017	2016
Current assets	\$ 9,954	\$ 27,429
Non-current assets	484,932	423,564
<b>Total assets</b>	<b>\$ 494,886</b>	<b>\$ 450,993</b>
Current liabilities	\$ 54,222	\$ 53,162
Non-current liabilities	308,640	252,826
<b>Total liabilities</b>	<b>\$ 362,862</b>	<b>\$ 305,988</b>
Total revenue	\$ 50,726	\$ 48,317
Total expenses	\$ 43,789	\$ 35,783

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

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

Years ended December 31, 2017 and 2016

## 9. Joint arrangements (continued):

(b) The following tables summarize the information about Chartwell's investment in joint ventures, which have been accounted for under the equity method:

	2017	2016
Contributions to joint ventures	\$ 9,202	\$ 1,053
Distributions received from joint ventures	7,176	8,915

	2017	2016
Cash and cash equivalents	\$ 7,608	\$ 8,238
Trade and other receivables	3,481	2,474
Other assets	5,144	6,175
Current assets	16,233	16,887
PP&E and intangible assets	107,979	100,427
<b>Total assets</b>	<b>\$ 124,212</b>	<b>\$ 117,314</b>

Accounts payable and other liabilities	\$ 2,811	\$ 8,690
Mortgages payable - current	20,575	320
Current liabilities	23,386	9,010
Mortgages payable - non-current	63,262	77,482

<b>Total liabilities</b>	<b>\$ 86,648</b>	<b>\$ 86,492</b>
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<b>Net investment in joint ventures</b>	<b>\$ 37,564</b>	<b>\$ 30,822</b>
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	2017	2016
Revenue	\$ 124,768	\$ 120,444
Direct property operating expense	(75,380)	(74,169)
Lease expense	(34,700)	(33,803)
Finance cost	(2,256)	(2,429)
Depreciation of PPE	(7,586)	(7,876)
Change in fair value of financial instruments and foreign exchange (losses) gains	(137)	2,402
Other income	7	122
<b>Chartwell's share of net income from joint ventures</b>	<b>\$ 4,716</b>	<b>\$ 4,691</b>

# 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

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## 9. 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, and in management fee revenue, as applicable. As of December 31, 2017, \$719 (2016 - \$787) of Chartwell's accounts receivable and \$7,360 (2016 - \$4,642) of Chartwell's accounts payable relate to its investment in joint ventures. For the year ended December 31, 2017, \$6,097 (2016 - \$6,338) of Chartwell's management fees 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 38 properties, which under IFRS 11, Joint Arrangements ("IFRS 11"), 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"), which under IFRS 11 are 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 renewals as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$34,700 for the year ended December 31, 2017 (2016 - \$33,803), 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 from joint ventures in the consolidated statements of comprehensive income.

On January 10, 2017, Chartwell entered into a new joint venture with Signature Retirement Living to develop a 165-suite retirement residence in Kingston, Ontario. Chartwell owns a 60% interest and Signature Retirement Living owns the remaining 40% interest.

# 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

## 10. Secured debt and credit facilities:

### (a) Mortgages payable:

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

The mortgages payable as at December 31, 2017 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
2018	\$ 59,512	\$ 103,240	\$ 162,752	10
2019	58,822	116,224	175,046	11
2020	58,518	107,076	165,594	10
2021	56,472	105,353	161,825	10
2022	53,047	121,563	174,610	11
2023	48,823	60,419	109,242	7
2024	38,947	156,797	195,744	12
2025	32,099	44,335	76,434	5
2026	30,473	33,830	64,303	4
2027	27,502	63,176	90,678	6
2028	32,083	40,154	72,237	4
2029	22,912	–	22,912	1
2030	21,567	–	21,567	1
2031	20,153	–	20,153	1
Thereafter	71,932	44,906	116,838	7
	<u>\$ 632,862</u>	<u>\$ 997,073</u>	1,629,935	<u>100</u>
Mark-to-market adjustments on acquisition			16,028	
Financing costs			(31,631)	
			<u>\$ 1,614,332</u>	
Current			\$ 165,300	
Non-current			1,449,032	
			<u>\$ 1,614,332</u>	

# 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

## 10. Secured debt and credit facilities (continued):

	2017	2016
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,614,304	\$ 1,612,233
Interest rates	1.90% to 7.85%	1.79% to 8.51%
Weighted average interest rate	3.86%	3.91%
Mortgages at variable rates:		
Mortgages (principal)	\$ 15,631	\$ 32,475
Interest rates	Bankers' acceptance plus 1.50% to prime plus 2.00%	Bankers' acceptance plus 1.50% to prime plus 2.00%
Weighted average interest rate	3.49%	2.89%
Blended weighted average rate	3.86%	3.89%

Mortgages totalling \$135,448 (2016 - \$287,305) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2018 and 2021. The swaps have a fair value liability of nil (2016 - \$135) included in accounts payable and other accrued liabilities and fair value asset of \$2,457 (2016 - \$1,624) included in trade and other receivables.



# 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

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## 10. Secured debt and credit facilities (continued):

### (b) Credit facilities:

#### (i) Secured credit facility

Chartwell has a \$300,000 secured revolving credit facility with a syndicate of Canadian financial institutions. The amounts outstanding on the secured credit facility bear interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.85% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.85%, depending on Chartwell's overall leverage ratio as defined in the credit agreement. The secured credit facility is secured by second-ranked charges on specific properties. The secured credit facility is subject to various financial covenants including among others, minimum equity requirements and limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders. The credit facility matures on May 29, 2020. At December 31, 2017, the maximum available borrowing capacity under the credit facility was \$292,573, based on the security provided. Of this capacity, as at December 31, 2017, \$4,655 (2016 - \$4,241) has been allocated to support various letters of credit issued by Chartwell. At December 31, 2017, no amounts were drawn on this line.

Previously, Chartwell had a revolving credit facility with a borrowing capacity of \$200,000 bearing 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. In addition, Chartwell had a credit facility with a borrowing capacity of \$50,000 bearing 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. The amounts outstanding under these previous credit facilities were repaid from the proceeds of the new secured credit facility.

# 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

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## 10. Secured debt and credit facilities (continued):

### (ii) Unsecured credit facility:

Chartwell has a \$100,000 unsecured credit facility with a syndicate of Canadian banks. The amounts outstanding on the unsecured credit facility bear interest ranging from the bank's prime rate plus 0.80% to bank's prime rate plus 1.10% or banker's acceptance rate plus 1.80% to banker's acceptance rate plus 2.10% depending on Chartwell's leverage ratio as defined in the credit agreement. The unsecured credit facility is subject to various financial covenants including among others, 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 and limitation on the amount of secured indebtedness. At December 31, 2017, the maximum available borrowing capacity under the unsecured credit facility was \$43,303. At December 31, 2017, no amounts were drawn on this line.

# 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

## 11. Senior unsecured debentures:

	December 31, 2017	December 31, 2016
Senior unsecured debentures principal	\$ 200,000	\$ –
Financing costs, net	(1,407)	–
<b>Carrying value</b>	<b>\$ 198,593</b>	<b>\$ –</b>

On June 9, 2017, Chartwell issued \$200,000 of 3.786% Series A senior unsecured debentures due on December 11, 2023, with semi-annual interest payments due on June 11 and December 11 of each year. Debt financing costs of \$1,538 were incurred and are being amortized using the effective interest method. The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to October 11, 2023 as well as through certain other events which may trigger redemption. Under the terms of the indenture, Chartwell is required to meet certain financial covenants. These covenants include debt service coverage, indebtedness and unencumbered asset ratios and other covenants.

## 12. Accounts payable and other liabilities:

	Note	2017	2016
Accounts payable and accrued liabilities		\$ 106,382	\$ 89,099
Resident deposits		2,932	2,596
Deferred revenue		571	115
Deferred Trust Units ("DTU")	(a)	14,186	13,620
Restricted Trust Units ("RTU")	(b)	6,547	4,935
EUPP option component	(c)	13,363	11,505
		<b>\$ 143,981</b>	<b>\$ 121,870</b>

### (a) DTU Plan:

Chartwell provides a DTU Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of DTU. Chartwell matches, on a one-on-one basis, the number of Trust Units elected to be received by directors. The number awarded is based on the fair market value of Chartwell Trust Units, as defined in the plan, on the award date.

# 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

## 12. Accounts payable and other liabilities (continued):

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.

As described in note 2(j)(ii), the value of issued units is recorded as a liability on the consolidated balance sheets. DTU values are initially calculated based on the grant date fair value. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The liability is remeasured to fair value at each reporting date until the liability is settled. The liability is released after settlement upon retirement of the director. The market price of Trust Units as at December 31, 2017 was \$16.26 (2016 - \$14.67).

The following table summarizes the DTU activity:

	Units outstanding	Amount
Balance, December 31, 2015	823,166	\$ 10,501
Units granted	71,573	1,068
Change in fair value and distributions	33,879	2,051
Balance, December 31, 2016	928,618	13,620
Units granted	66,994	1,039
Change in fair value and distributions	31,727	1,939
DTU settled by the issuance of Trust Units	(154,740)	(2,412)
Balance, December 31, 2017	872,599	\$ 14,186

The non-cash compensation expense attributable to DTUs granted of \$1,039 for the year ended December 31, 2017 (2016 - \$1,068) is included in general, administrative and trust expenses.

# 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

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## 12. 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.

During the year ended December 31, 2017, 208,503 notional Trust Units were granted (2016 - 207,943), 19,078 notional Trust units were cancelled (2016 - 29,295), 21,902 notional Trust units were issued in regard to distributions (2016 - 22,214), and 181,678 notional Trust units vested and were paid out (2016 - 138,090). At December 31, 2017, 526,195 notional Trust Units remained outstanding (2016 - 496,546).

The compensation expense attributable to the RTU Plan of \$4,334 for the year ended December 31, 2017 (2016 - \$3,734) is included in general, administrative and trust expenses.

### (c) EUPP option component:

The description of the EUPP is included in note 17(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. Any change in liability is recognized in profit and loss.

# 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

## 12. 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:

	2017		2016	
Expected volatility	10.99% - 15.99%	18.42%	23.42%	
Risk-free rate	2.30% - 2.55%	1.76%	2.32%	
Distribution yield	3.73% - 3.97%	4.28%	4.75%	

## 13. Reconciliation of changes in liabilities arising from financing activities:

	Mortgages payable	Credit facilities	Senior unsecured debentures	Total
Balance, December 31, 2016	\$ 1,641,772	\$ 172,000	\$ -	\$ 1,813,772
Proceeds from financing	311,316	-	200,000	511,316
Repayments	(299,227)	(172,000)	-	(471,227)
Scheduled principal payments	(57,856)	-	-	(57,856)
Financing costs paid	(13,374)	-	(1,538)	(14,912)
Assumed on acquisition	37,060	-	-	37,060
Held for sale classification	(6,061)	-	-	(6,061)
Amortization of financing costs and mark to market adjustments	702	-	131	833
Balance, December 31, 2017	\$ 1,614,332	\$ -	\$ 198,593	\$ 1,812,925

# 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

## 14. 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.

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

	2017	2016
Other income	\$ –	\$ 1,721
Income before income taxes	–	1,721
Current income tax benefit (note 25)	–	3,785
Net income from discontinued operations	\$ –	\$ 5,506

During the year ended December 31, 2016, Chartwell agreed to settle certain liabilities for which estimates were made on closing of the sale of U.S. portfolio. As the agreed upon settlement amounts were lower than previously estimated, Chartwell recorded other income of \$1,721.

# 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

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## 15. Assets held for sale and related liabilities:

On October 25, 2017, Chartwell entered into a definitive agreement to sell a retirement residence located in St. Eustache, Quebec, included in the Retirement Segment. The sale price is \$13,515 before closing costs and working capital adjustments and will be settled in cash. The transaction is expected to close in the second quarter of 2018.

The following table summarizes the significant assets held for sale and related liabilities on December 31, 2017:

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Assets:	
Cash and cash equivalents	\$ 2
Trade and other receivables	(133)
Other assets	29
PP&E, net	10,215
	<hr/>
	\$ 10,113
Liabilities:	
Accounts payable and other liabilities	\$ 580
Mortgages payable	6,061
	<hr/>
	\$ 6,641

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# 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

## 16. 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. Chartwell has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy.

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. These distributions are included in finance costs in the consolidated statements of comprehensive income.

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	Units outstanding	Amount
Balance, December 31, 2015	1,641,323	\$ 20,943
Exchange of Class B Units into Trust Units	(14,150)	(202)
Change in fair value	–	3,130
Balance, December 31, 2016	1,627,173	23,871
Exchange of Class B Units into Trust Units	(10,000)	(157)
Change in fair value	–	2,594
Class B Units issued (note 4)	31,565	500
Balance, December 31, 2017	1,648,738	\$ 26,808

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# 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

## 17. Unitholders' equity 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.

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, 2015	176,401,201	\$ 1,778,496
Trust Units issued under DRIP	1,418,778	19,725
Trust Units issued on conversion and redemption of debt	12,157,779	173,194
Trust Units issued in exchange of Class B Units	14,150	202
Trust Units released on settlement of EUPP receivable	103,566	1,882
Balance, December 31, 2016	190,095,474	1,973,499
Trust Units issued under DRIP	1,348,980	20,115
Trust Units issued on vesting of DTU	154,740	2,412
Trust Units issued in exchange of Class B Units	10,000	157
Trust Units released on settlement of EUPP receivable	140,439	2,759
Trust Units issued pursuant to public offering	17,732,000	258,482
<b>Balance, December 31, 2017</b>	<b>209,481,633</b>	<b>\$ 2,257,424</b>

# 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

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## 17. Unitholders' equity and EUPP (continued):

On November 24, 2017 Chartwell completed a public offering of 17,732,000 Trust Units at \$15.20 per Trust Unit for gross proceeds of \$269,526. Underwriting commission and other offering related costs amounted to \$11,044.

### (b) Trust Units issued under EUPP:

Chartwell has established an EUPP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for 20 trading days preceding the date of issuance. 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 2,802,905 were available to be issued at December 31, 2017.

# 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

## 17. Unitholders' equity and EUPP (continued):

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
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	(14,134)	(151)
Trust Units released on settlement of EUPP receivable	(103,566)	(1,222)
Balance, December 31, 2016	1,515,388	16,588
Trust Units issued under EUPP	89,778	1,369
Trust Units surrendered for cancellation under EUPP	(12,638)	(133)
Trust Units released on settlement of EUPP receivable	(140,439)	(1,611)
Balance, December 31, 2017	1,452,089	\$ 16,213

The non-cash compensation expense attributable to the EUPP of \$335 for the year ended December 31, 2017 (2016 - \$303) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities. 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%.

# 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

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## 18. Segmented information:

Chartwell monitors and operates its Retirement and Long-Term Care properties separately. The Retirement Operations segment includes 160 communities that Chartwell owns and operates in Canada. The retirement communities 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 24 long-term care communities in Ontario. Admission and funding for the long-term care communities is overseen by local government agencies in each province. Where a community 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 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 consolidated 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.

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.

# 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

## 18. Segmented information (continued):

2017	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon- ciliation	Total
<b>Revenue:</b>							
Resident Management and other fees	\$ 649,989	\$ 227,427	\$ 877,416	\$ -	\$ 877,416	\$(124,641)	\$ 752,775
Lease revenue from joint ventures	-	-	-	8,861	8,861	-	8,861
Interest income	-	-	-	-	-	34,700	34,700
	-	-	-	4,085	4,085	(127)	3,958
	649,989	227,427	877,416	12,946	890,362	(90,068)	800,294
<b>Expenses (income):</b>							
Direct property operating	396,493	199,263	595,756	-	595,756	(75,380)	520,376
Adjusted net operating income <sup>(1)</sup>	253,496	28,164	281,660				
Depreciation of PP&E							151,565
Amortization of intangible assets							1,784
Share of net income from joint ventures							(4,716)
General, administrative and trust							38,007
Other expense							6,176
Finance costs							71,122
Change in fair values of financial instruments and foreign exchange losses							2,987
							266,925
Income before income taxes							12,993
<b>Income tax benefit (expense):</b>							
Current							(15)
Deferred							104
							89
<b>Net income</b>							<b>\$ 13,082</b>
<b>Expenditures for non-current assets:</b>							
Acquisition of properties	\$ 209,627	\$ -	\$ 209,617	\$ -	\$ 209,627	\$ -	\$ 209,627
Capital additions	160,713	6,043	166,756	15,390	182,146	(14,914)	167,232

<sup>(1)</sup> 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, respectively.

# 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

## 18. Segmented information (continued):

2016	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon- ciliation	Total
<b>Revenue:</b>							
Resident	\$ 610,962	\$ 223,771	\$ 834,733	\$ -	\$ 834,733	\$(120,353)	\$ 714,380
Management and other fees	-	-	-	8,777	8,777	-	8,777
Lease revenue from joint ventures	-	-	-	-	-	33,803	33,803
Interest income	-	-	-	4,518	4,518	(91)	4,427
	610,962	223,771	834,733	13,295	848,028	(86,641)	761,387
<b>Expenses (income):</b>							
Direct property operating	373,254	196,142	569,396	-	569,396	(74,169)	495,227
Adjusted net operating income <sup>(1)</sup>	237,708	27,629	265,337				
Depreciation of PP&E							145,586
Amortization of intangible assets							1,169
Share of net income from joint ventures							(4,691)
General, administrative and trust							33,838
Other expense							5,160
Finance costs							68,778
Change in fair values of financial instruments and foreign exchange losses							17,003
							762,070
Loss before income taxes							(683)
Income tax expense							(27)
Loss from continuing operations							(710)
Net income from discontinued operations, net of income taxes							5,506
<b>Net income</b>							<b>\$ 4,796</b>
<b>Expenditures for non-current assets:</b>							
Acquisition of properties	\$ 230,095	\$ -	\$ 230,095	\$ -	\$ 230,095	\$ -	\$ 230,095
Capital additions	112,481	8,242	120,723	3,220	123,943	(498)	123,445

<sup>(1)</sup> 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, respectively.

# 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

## 18. Segmented information (continued):

2017	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 2,737,248	\$ 262,826	\$ 3,000,074	\$ 95,285	\$ 3,095,359	\$ (81,460)	\$ 3,013,899
Total liabilities	\$ 1,630,850	\$ 167,896	\$ 1,798,746	\$ 286,446	\$ 2,085,192	\$ (81,460)	\$ 2,003,732

  

2016	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 2,542,070	\$ 265,193	\$ 2,807,263	\$ 71,346	\$ 2,878,609	\$ (81,902)	\$ 2,796,707
Total liabilities	\$ 1,607,945	\$ 199,333	\$ 1,807,278	\$ 246,348	\$ 2,053,626	\$ (81,902)	\$ 1,971,724



# 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

## 19. 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 liabilities related to unit-based payment plans, Class B Units, income guarantees and deferred consideration on business combinations, as shown in the consolidated balance sheets, are shown in the table below. The table below 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.

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial assets recorded at amortized cost:				
Loans receivable	\$ 6,753	\$ 6,753	\$ 10,528	\$ 10,528
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgage payable related to assets held for sale	6,061	6,061	-	-
Mortgages payable	1,614,332	1,680,549	1,641,772	1,688,374
Credit Facilities	-	-	172,000	172,000
Senior unsecured debentures	198,593	201,478	-	-

# 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

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

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 flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2017, the mortgages payable were discounted using rates between 2.68% and 4.46% (2016 - 1.89% and 4.56%). 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 values of the loan receivables and credit facilities approximates their carrying values and are considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

The fair value of senior unsecured debentures is an estimate made at a specific point in time, based on a quoted market price. As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of senior unsecured debentures is 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.

# 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

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

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2016.

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. Chartwell has two significant categories of receivables: resident 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'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 or personal 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 transactions with counterparties that are stable and of high credit quality.

# 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

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

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible. At December 31, 2017, outstanding residents receivables were \$1,397 (2016 - \$1,326), net of an impairment reserve of \$1,238 (2016 - \$960).

### (ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

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

As at December 31, 2017, current liabilities totaled \$327,885, exceeding current assets of \$97,545, resulting in a working capital deficiency of \$230,340. Current liabilities includes an amount of \$165,300 of current mortgages payable, comprised of \$103,240 related to maturing balances which are expected to be renewed on maturity, \$59,512 related to regular principal payments and \$2,548 related to the balance of unamortized mark-to-market adjustments net of unamortized financing costs. These and other contractual obligations and contingencies, including those related to agreements with Batimo, are disclosed in note 26. 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, and (iii) secured and unsecured credit facilities, under which \$331,221 was available and undrawn at December 31, 2017 (note 10(b)). In addition, subject to market conditions, Chartwell may seek to raise funding through new senior unsecured debentures or equity financing. The particular features and quality of the underlying assets and the debt and equity market parameters existing at the time of financing may impact the ability for financing.

# 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

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

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

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.

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.

Chartwell holds licenses related to each of its long-term care communities and in certain cases, retirement communities. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2017, Chartwell received \$193,247 (2016 - \$192,238) in funding in respect of these licenses, which has been recorded as resident revenue, interest income and capital funding receivable, as applicable.

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

# 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

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

At December 31, 2017, Chartwell's interest-bearing financial instruments were as follows:

	Carrying amount	
	2017	2016
Fixed-rate financial liabilities	\$ 1,814,304	\$ 1,612,233
Variable-rate financial liabilities	\$ 15,631	\$ 204,475

An increase/decrease of 100-basis-points in interest rates at December 31, 2017 for the variable-rate financial instruments would have decreased/increased income before income tax for the year by \$156.

## 20. Capital structure financial policies:

Chartwell's primary objectives in managing capital are:

- 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;
- to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements while ensuring that Chartwell complies with certain financial and non-financial covenants included in debt agreements; and
- to provide 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.

# 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

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

Management defines capital as Chartwell's total unitholders' equity, Class B Units and long-term debt. Chartwell's long-term debt includes mortgages payable, senior unsecured debentures 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 sheet (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 line-by-line 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.

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 sheet, adjusted for Chartwell's line-by-line share of its joint ventures. Indebtedness is determined on a consolidated basis for Chartwell and its consolidated subsidiaries.

# 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

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

The following are the Indebtedness ratios at December 31, 2017 and 2016:

	2017	2016	Increase (decrease)
Indebtedness ratio	44.8%	48.9%	(4.1) %

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. There have been no changes in Chartwell's capital management strategy during the year.

## 21. Personnel expenses:

The analysis of employee benefits expense for the years ended December 31, 2017 and 2016, included in the consolidated statements of comprehensive income under direct operating expenses and general, administrative and trust expenses, is as follows:

	2017	2016
Salaries and wages	\$ 379,905	\$ 359,032
Post-employment benefits (defined contribution plans)	5,867	5,404
Unit-based compensation	5,708	5,104
	\$ 391,480	\$ 369,540



# 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

## 22. Other expense:

	2017	2016
Property lease expense	\$ 395	\$ 395
Impairment of PP&E, net of reversals (note 4)	–	6,390
Transaction costs arising on acquisitions and dispositions	7,540	5,400
Other expense	7,935	12,185
Gain on sale of assets (a)	(697)	(1,838)
Gain recorded on remeasurement of previously held interest on acquisition (note 3)	–	(5,187)
Other income	(1,062)	–
Other income	(1,759)	(7,025)
Other expense	\$ 6,176	\$ 5,160

### (a) Gain on sale of assets:

On May 3, 2017, Chartwell sold a property located in Quebec. The sale price for the property was \$23,500, of which \$2,500 is held in escrow to support the purchaser's rental income and certain renovation costs, with the balance settled in cash. A former Chartwell director was an officer and director of the purchaser of this property.

On June 30, 2016, Chartwell sold three non-core properties in Quebec, included in the Canadian Retirement Segment. On closing, the purchaser assumed mortgages encumbering these properties in amount of \$17,872, bearing interest of 3.99%. Under the terms of the transaction, an amount of \$1,721 was to be made available to the purchaser upon satisfaction of certain conditions subsequent to closing, of which \$914 has been released with the remainder included in accounts payable and other liabilities in the consolidated balance sheet. For the year ended December 31, 2016, Chartwell recorded a gain on sale of these assets of \$686.

For the year ended December 31, 2016, Chartwell completed other disposals of assets and recorded a gain of \$1,152.

# 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

## 23. Finance costs:

	2017	2016
Contractual interest expense on mortgages	\$ 63,223	\$ 63,598
Interest expense on convertible debentures	–	2,611
Interest expense on senior unsecured debentures	4,274	–
Credit facility and other interest expense	4,743	3,912
	<u>72,240</u>	<u>70,121</u>
Interest capitalized to properties under development	(2,908)	(1,085)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	835	(1,162)
Distributions on Class B Units recorded as interest expense	955	904
Total finance costs	<u>\$ 71,122</u>	<u>\$ 68,778</u>

## 24. Changes in fair values of financial instruments and foreign exchange losses:

	2017	2016
Change in fair value of convertible debentures	\$ –	\$ 11,441
Change in fair value of interest rate swaps	(2,739)	(2,245)
Foreign exchange losses (gains)	271	(202)
Change in fair value of EUPP option component	2,670	3,499
Change in fair value of Class B Units	2,595	3,130
Change in fair value of DTUs	1,939	2,051
Change in fair value of deferred purchase consideration	113	113
Change in fair value of income guarantees	(1,862)	(784)
Change in fair values of financial instruments and foreign exchange losses	<u>\$ 2,987</u>	<u>\$ 17,003</u>

# 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

## 25. Income taxes:

Chartwell recorded current income tax expense of \$15 and a deferred tax recovery of \$104 during the year ended December 31, 2017 in a corporate subsidiary. The deferred tax liability is primarily attributable to the reversal of temporary differences between the accounting and tax basis of the PP&E held by the subsidiary.

The income tax expense (benefit) - continuing operations 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% (2016 - 53.53%). The differences for the years ended December 31 are as follows:

	2017	2016
Income (loss) before income taxes from continuing operations	\$ 12,993	\$ (683)
Income tax expense (recovery) at Canadian tax rate	\$ 6,955	\$ (366)
Non-deductible expenses	3,161	1,651
Recognition of previously unrecognized tax benefits	(14,663)	(11,603)
Effect of tax rates in corporate subsidiary	56	—
Non-deductible fair value changes	3,915	10,749
Other	487	(404)
Income tax expense (benefit) - continuing operations	\$ (89)	\$ 27

# 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

## 25. Income taxes (continued):

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

	Balance, January 1, 2017	Recognized in net income (loss)	Recognized in Unitholders' equity	Balance, December 31, 2017
Property, plant and equipment	\$ 43,273	\$ (15,383)	\$ –	\$ 27,890
Intangible assets	(13,946)	(435)	–	(14,381)
Losses available for carryforward	7,367	532	–	7,899
Other	(1,515)	727	6,006	5,218
Gross deferred tax asset (tax effected)	35,179	(14,559)	6,006	26,626
Deferred tax assets not recognized	(36,697)	14,663	(6,006)	(28,040)
<b>Net deferred tax liability</b>	<b>\$ (1,518)</b>	<b>\$ 104</b>	<b>\$ –</b>	<b>\$ (1,414)</b>

	Balance, January 1, 2016	Recognized in net income (loss)	Acquired in business combination	Balance, December 31, 2016
Property, plant and equipment	\$ 56,504	\$ (11,665)	\$ (1,566)	\$ 43,273
Intangible assets	(13,479)	(467)	–	(13,946)
Losses available for carryforward	7,919	(552)	–	7,367
Other	(2,644)	1,081	48	(1,515)
Gross deferred tax asset (tax effected)	48,300	(11,603)	(1,518)	35,179
Deferred tax assets not recognized	(48,300)	11,603	–	(36,697)
<b>Net deferred tax liability</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ (1,518)</b>	<b>\$ (1,518)</b>

# 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

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## 25. Income taxes (continued):

Deferred tax assets have not been recognized for the following:

	2017	2016
Deductible temporary differences	\$ 17,791	\$ 33,818
Non-capital and capital losses carried forward	21,306	19,318
	<u>\$ 39,097</u>	<u>\$ 53,136</u>

Chartwell has non-capital losses carried forward of \$13,130, which will expire between 2027 and 2029, and capital losses carried forward of \$8,176. The capital losses carried forward and deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

# CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2017 and 2016

## 26. Commitments and contingencies:

Chartwell's major contractual obligations as at December 31, 2017 are detailed in the following table:

	Note	Total	2018	2019	2020	2021	2022	Thereafter
Mortgages payable	10(a)	\$ 1,629,935	\$ 162,752	\$ 175,046	\$ 165,594	\$ 161,825	\$ 174,610	\$ 790,108
Accounts payable and other liabilities	12	143,981	143,981	—	—	—	—	—
Distributions payable		10,203	10,203	—	—	—	—	—
Deferred consideration on business combinations		1,760	1,760	—	—	—	—	—
Liabilities related to assets held for sale	15	6,641	6,641	—	—	—	—	—
Senior unsecured debentures	11	200,000	—	—	—	—	—	200,000
Purchase obligations	26(b)	315,880	277,004	38,876	—	—	—	—
Operating leases	26(a)(i)	3,802	1,416	1,360	136	139	155	596
Land leases	26(a)(ii)	13,690	395	395	395	395	395	11,715
<b>Total contractual obligations</b>		<b>\$ 2,325,892</b>	<b>\$ 604,152</b>	<b>\$ 215,677</b>	<b>\$ 166,125</b>	<b>\$ 162,359</b>	<b>\$ 175,160</b>	<b>\$ 1,002,419</b>

# 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

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## 26. Commitments and contingencies (continued):

### (a) Lease obligations:

#### (i) Operating leases:

Chartwell has operating leases on office space in Canada that expire on various dates up to July 31, 2022. In aggregate, annual payments on these leases vary from \$1,129 to \$1,217 over the remaining terms of the leases.

#### (ii) Land leases:

Chartwell has commitments related to three properties located on lands subject to long-term land leases. A land lease on a property in Alberta, Canada expires on July 17, 2061, and requires annual payments of \$126. A land lease on a property in Ontario expires on August 31, 2044, and requires annual payments of \$113 through to August 31, 2024, and \$136 for the remainder of the term. A land lease on another property in Ontario expires on May 31, 2048 with minimum lease payments of \$156, to be negotiated to market on May 31, 2018, and every 15-year anniversary thereafter.

For the above leases, legal title does not pass to Chartwell. Chartwell has determined that substantially all of the risks and rewards incidental to ownership are still with the lessor and, as such, these leases are operating leases.

### (b) Purchase obligations:

Chartwell has entered into various construction contracts related to its development projects. As at December 31, 2017, the remaining commitments under these contracts amounted to approximately \$110,607 (2016 - \$106,490).

In January 2019, Chartwell will be required to acquire all outstanding Class R Units of its joint venture partner (note 9). The purchase price is based on 2018 joint venture operating results and is estimated to be \$18,000.

# 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

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## 26. Commitments and contingencies (continued):

As at December 31, 2017, Chartwell has entered into a definitive agreement to acquire four retirement residences in Alberta and a forward purchase agreement to acquire one additional retirement residence upon completion of its development. The purchase price for the initial four retirement residences, before closing costs and working capital adjustments is \$297,900, with settlement estimated by cash of \$187,273 and the remainder through the assumption of mortgages. The purchase price for the remaining development property is \$120,000.

Under Chartwell's agreements with Batimo, upon achievement of certain conditions, Batimo may 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 is for a five-year period commencing on opening of the related facility. Upon expiry of the Batimo Option, Chartwell has a two-year option to require Batimo to sell an 85% interest in the property at FMV, as defined in the agreements. At December 31, 2017, there are nine projects with 2,784 suites that are subject to this arrangement.

### (c) Letters of credit:

As at December 31, 2017, Chartwell was contingently liable for letters of credit in the amount of \$ 4,655 (2016 - \$4,241).

### (d) Guarantees:

As a result of the purchasers' assumption of certain mortgages on two properties sold in 2014 and one property sold in 2015 and three properties sold in 2016, Chartwell remains a guarantor of these mortgages. As at December 31, 2017, outstanding balance on these loans was \$19,436 (2016 - \$25,257). The purchasers have indemnified Chartwell with respect to these guarantees.

Chartwell, with its partners, has jointly and severally guaranteed loans on two properties, which are 50% owned by Chartwell, two development properties owned 60% and 45% by Chartwell, respectively, and three properties, which are 85% owned by Chartwell, to a maximum amount of \$226,638. As at December 31, 2017, outstanding balances on these loans totalled \$97,131 (\$36,995 of which represents partners share).



# 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

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## 26. Commitments and contingencies (continued):

### (e) Litigation and claims:

In the ordinary course of business activities, Chartwell may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but cannot provide absolute assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell.

## 27. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2017 and 2016 was as follows:

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	2017	2016
Officers' and directors' compensation	\$ 4,937	\$ 4,587
Post-employment benefits	54	67
Other long-term benefits	2,816	1,847
Unit-based payments	302	241

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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.

# 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

## 28. Expenses by nature:

	2017	2016
Wages and benefits	\$ 391,480	\$ 369,540
Food and supplies	55,513	53,062
Realty taxes	26,863	26,132
Utilities	28,103	29,049
Other	56,424	51,282
	<u>\$ 558,383</u>	<u>\$ 529,065</u>
Included in the consolidated statements of income:		
Direct property operating	\$ 520,376	\$ 495,227
General, administrative and trust	38,007	33,838
	<u>\$ 558,383</u>	<u>\$ 529,065</u>

## 29. Subsequent events:

On February 6, 2018, Chartwell sold three retirement residences in Quebec. The purchase price before working capital adjustments and closing costs was \$32,000 at Chartwell's ownership and was settled in cash.

On February 22, 2018, Chartwell announced a 2.1% increase in the monthly cash distributions from \$0.048 per unit (\$0.576 per unit on an annualized basis) to \$0.049 per unit (\$0.5880 per unit on an annualized basis) effective for the March 31, 2018 distribution payable on April 16, 2018.