

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

As at and for the three months and six months ended
June 30, 2018 and 2017
(Unaudited)

CHARTWELL RETIREMENT RESIDENCES

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

	Note	June 30, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		\$ 8,645	\$ 44,751
Trade and other receivables		16,985	11,840
Capital funding receivable		6,147	5,981
Other assets	4	20,524	24,860
Assets held for sale		–	10,113
Total current assets		52,301	97,545
Non-current assets:			
Other assets	4	2,596	2,863
Loans receivable	5	10,722	6,753
Capital funding receivable		45,416	48,530
Investment in joint ventures	6	65,240	37,564
Intangible assets		55,343	56,034
Property, plant and equipment ("PP&E")	3	3,079,561	2,764,610
Total non-current assets		3,258,878	2,916,354
Total assets		\$ 3,311,179	\$ 3,013,899
Liabilities and Unitholders' Equity			
Current liabilities:			
Accounts payable and other liabilities	10	\$ 150,135	\$ 143,981
Distributions payable		10,457	10,203
Mortgages payable	7	216,248	165,300
Deferred consideration on business combinations		1,817	1,760
Liabilities related to assets held for sale		–	6,641
Total current liabilities		378,657	327,885
Non-current liabilities:			
Mortgages payable	7	1,493,018	1,449,032
Credit facilities	8	82,555	–
Senior unsecured debentures	9	347,918	198,593
Class B Units of Chartwell Master Care LP ("Class B Units")	11	25,229	26,808
Deferred tax liabilities		1,360	1,414
Total non-current liabilities		1,950,080	1,675,847
Total liabilities		2,328,737	2,003,732
Unitholders' equity	12	982,442	1,010,167
Total liabilities and unitholders' equity		\$ 3,311,179	\$ 3,013,899

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Huw Thomas" _____ Trustee "Lise Bastarache" _____ Trustee

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Revenue:					
Resident		\$ 201,675	\$ 181,705	\$ 395,280	\$ 361,984
Management and other fees		2,512	2,451	5,822	4,730
Lease revenue from joint ventures	6	9,447	8,699	18,111	17,228
Interest income		944	1,001	1,915	2,090
		214,578	193,856	421,128	386,032
Expenses (income):					
Direct property operating		135,901	126,693	271,248	252,636
Depreciation of PP&E	3	40,783	34,902	81,146	72,480
Amortization of intangible assets		411	439	823	936
Share of net income from joint ventures	6	(353)	(904)	(654)	(1,440)
General, administrative and trust		12,052	10,121	24,582	20,526
Other expense (income)	17	(312)	553	(13,232)	1,924
Finance costs	16	19,572	17,614	37,105	34,198
Change in fair values of financial instruments and foreign exchange losses (gains)	18	(436)	(1,765)	(2,344)	2,736
		207,618	187,653	398,674	383,996
Income before income taxes		6,960	6,203	22,454	2,036
Income tax benefit (expense):					
Current		(18)	–	(26)	–
Deferred		26	106	54	106
		8	106	28	106
Net income and comprehensive income		\$ 6,968	\$ 6,309	\$ 22,482	\$ 2,142

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Six months ended June 30, 2018	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated income (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2017	\$ 2,257,424	\$ 16,213	\$ (11,362)	\$ (141,426)	\$ (1,117,176)	\$ 6,494	\$ 1,010,167
Net income	–	–	–	22,482	–	–	22,482
Distributions to unitholders	–	–	–	–	(61,678)	–	(61,678)
Issue costs related to Trust Units pursuant to public offering	(267)	–	–	–	–	–	(267)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	10,632	–	–	–	–	–	10,632
Trust Units issued on exchange of Class B Units	45	–	–	–	–	–	45
Trust units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	794	1,590	(1,631)	–	–	(71)	682
Interest on EUPP receivable	–	–	(59)	–	–	–	(59)
Distributions applied against EUPP receivable	–	–	438	–	–	–	438
Unitholders' equity, June 30, 2018	\$ 2,268,628	\$ 17,803	\$ (12,614)	\$ (118,944)	\$ (1,178,854)	\$ 6,423	\$ 982,442

During the six months ended June 30, 2018, distributions were declared and paid at \$0.048 per unit per month for the months of January and February and \$0.049 per unit per month for the months of March to June. In July 2018, distributions were declared at \$0.049 per unit totalling \$10,383.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (continued)

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

(Unaudited)

Six months ended June 30, 2017	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated income (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2016	\$ 1,973,499	\$ 16,588	\$ (12,004)	\$ (154,508)	\$ (1,005,151)	\$ 6,559	\$ 824,983
Net income	–	–	–	2,142	–	–	2,142
Distributions to unitholders	–	–	–	–	(54,822)	–	(54,822)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	9,831	–	–	–	–	–	9,831
Trust Units issued on exchange of Class B Units	111	–	–	–	–	–	111
Trust units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	1,643	373	(626)	–	–	94	1,484
Trust units issued on vesting of Deferred Trust Units	2,412	–	–	–	–	–	2,412
Interest on EUPP receivable	–	–	(60)	–	–	–	(60)
Distributions applied against EUPP receivable	–	–	434	–	–	–	434
Unitholders' equity, June 30, 2017	\$ 1,987,496	\$ 16,961	\$ (12,256)	\$ (152,366)	\$ (1,059,973)	\$ 6,653	\$ 786,515

During the six months ended June 30, 2017, distributions were declared and paid at \$0.046818 per unit per month for the months of January and February and \$0.0480 per unit per month for the months of March to June.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net income	\$ 6,968	\$ 6,309	\$ 22,482	\$ 2,142
Items not affecting cash:				
Depreciation and amortization	41,194	35,341	81,969	73,416
Finance costs	19,572	17,614	37,105	34,198
Other expense (income)	(312)	553	(13,232)	1,924
Transaction costs arising from business acquisitions and dispositions	(2,612)	(816)	(3,439)	(2,416)
Interest income	(944)	(1,001)	(1,915)	(2,090)
Change in fair values of financial instruments and foreign exchange losses (gains)	(436)	(1,765)	(2,344)	2,736
Share of net income from joint ventures	(353)	(904)	(654)	(1,440)
Deferred income tax benefit	(26)	(106)	(54)	(106)
Other	463	896	756	1,385
Change in trade and other receivables	(607)	(741)	(5,585)	6,919
Change in other assets	4,130	(3,156)	7,189	(4,098)
Change in accounts payable and other liabilities	8,927	9,142	(3,588)	(11,043)
	75,964	61,366	118,690	101,527
Interest income and other income received	1,105	1,266	2,139	2,447
Interest paid	(20,649)	(17,544)	(36,532)	(34,517)
	56,420	45,088	84,297	69,457
Financing activities:				
Costs of public offering	—	—	(267)	—
Proceeds from mortgage financing	54,251	61,151	65,250	117,722
Scheduled mortgage principal repayments	(15,524)	(14,396)	(30,822)	(28,327)
Mortgage repayments	(24,671)	(41,634)	(43,008)	(56,223)
Proceeds from issuance of senior unsecured debentures	150,000	200,000	150,000	200,000
Changes to credit facilities	47,555	(95,000)	82,555	(46,000)
Additions to finance costs	(3,681)	(5,354)	(4,355)	(7,007)
Distributions paid	(25,554)	(22,630)	(50,412)	(44,344)
	182,376	82,137	168,941	135,821
Investing activities:				
Acquisition of assets under business combinations	(216,724)	—	(216,724)	(28,950)
Additions to PP&E and intangible assets	(44,620)	(44,801)	(91,687)	(73,442)
Proceeds from disposal of PP&E	14,303	21,035	48,176	21,075
Proceeds from capital funding receivable	1,484	1,405	2,949	2,793
Collection of loans receivable	—	—	—	1,457
Advances of loans receivable	—	—	(3,969)	—
Change in restricted cash	50	(115,104)	(1,067)	(115,152)
Contributions to joint ventures	—	(2,041)	(27,022)	(7,832)
Distributions received from joint ventures	—	3,948	—	3,948
	(245,507)	(135,558)	(289,344)	(196,103)
Increase (decrease) in cash and cash equivalents	(6,711)	(8,333)	(36,106)	9,175
Cash and cash equivalents, beginning of period	15,356	47,558	44,751	30,050
Cash and cash equivalents, end of period	\$ 8,645	\$ 39,225	\$ 8,645	\$ 39,225

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

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

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on August 9, 2018.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2017 with the exception of the impact of adopting the following accounting standards and amendments to standards:

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

Chartwell adopted IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), beginning on January 1, 2018, the mandatory effective date. The adoption of IFRS 9 was applied retrospectively, without restatement of comparative information. There was no material impact from the adoption of IFRS 9.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

IFRS 9 contains a new classification and measurement approach which requires financial assets to be classified and measured based on the business model in which they are managed 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 and fair value through profit or loss, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

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

All financial assets not classified as measured at amortized cost as described above are measured at fair value through profit or loss.

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 fair value through profit or loss 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 Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

The following table summarizes the classification impacts upon adoption of IFRS 9.

Asset/liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Income guarantee receivables	Fair value through profit or loss	Fair value through profit or loss
Loans receivable	Amortized cost	Fair value through profit or loss
Accounts payable and other liabilities	Other liabilities at amortized cost	Amortized cost
Distributions payable	Other liabilities at amortized cost	Amortized cost
Mortgages payable	Other liabilities at amortized cost	Amortized cost
Deferred consideration on business combinations	Fair value through profit or loss	Fair value through profit or loss
Credit facilities	Other liabilities at amortized cost	Amortized cost
Senior unsecured debentures	Other liabilities at amortized cost	Amortized cost
Class B Units	Fair value through profit or loss	Fair value through profit or loss
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss

For impairment of financial assets, IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets except for investments in equity instruments, and to contract assets, lease receivables, loan commitments and financial guarantee contracts.

Chartwell adopted the practical expedient to determine ECL on trade and other receivables using a provision matrix based on historical credit loss experiences adjusted for current and forecasted future economic conditions to estimate lifetime ECL.

Impairment losses are recorded in the condensed consolidated interim statements of comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (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.

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

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

(i) Retirement community resident revenue:

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

Rental revenue:

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

Services revenue:

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

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

(ii) Long-term care community resident revenue:

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

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 is recognized over time, typically on a monthly basis, which is when the services are provided to residents. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

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

(iii) Fee revenue:

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

(iv) Lease revenue from joint ventures:

Chartwell earns revenue under lease arrangements with operating entities which are jointly owned with Welltower Inc. The leases are accounted for as operating leases and lease revenue is recognized over the term of the underlying leases. Payments are due at the beginning of each month.

Chartwell has adopted IFRS 15 for the year beginning on January 1, 2018, using the cumulative effect method. The adoption of IFRS 15 did not result in changes to opening equity as at January 1, 2018.

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

Chartwell adopted the amendments to IFRS 2 on January 1, 2018, the mandatory effective date. There was no material impact from the adoption of the amendments to IFRS 2.

2. Acquisitions:

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

Date of acquisition	April 23, 2018	June 1, 2018	Total
Segment	<u>Canadian Retirement Operations</u>		
Location	Province of Alberta	Province of Alberta	
Number of properties (suites)	4 (775 suites)	1 (104 suites)	Total
PP&E	\$ 295,776	\$ 20,000	\$ 315,776
Net assets acquired	\$ 295,776	\$ 20,000	\$ 315,776
Cash consideration	\$ 196,724	\$ 20,000	\$ 216,724
Mortgage assumed	100,676	–	100,676
Income support receivable (note 4)	(1,624)	–	(1,624)
Total consideration transferred	\$ 295,776	\$ 20,000	\$ 315,776

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

2. Acquisitions (continued):

On April 23, 2018, Chartwell acquired a 100% interest in a portfolio of four properties in Alberta totaling 775 suites. The purchase price before working capital adjustments and closing costs was \$297,400 and was settled through the assumption of mortgages and cash. The vendor has provided Chartwell with an income support guarantee of up to \$1,624 on one property if operating results fall below certain threshold amounts (note 4). The properties have contributed revenue of \$6,350 and net loss of \$1,349 since acquisition. Chartwell incurred acquisition-related costs of \$2,536, which have been expensed in the condensed consolidated interim statements of comprehensive income. Chartwell entered into a forward purchase agreement to acquire an additional 256-suite residence upon completion of its development expected in Q4 2019 for a contractual purchase price of \$120,000.

On June 1, 2018, Chartwell acquired a 100% interest in a 104-suite retirement residence located in Edmonton, Alberta. The purchase price before working capital adjustments and closing costs was \$20,000 and was settled in cash. The property has contributed revenue of \$253 and net income of \$61 since acquisition. Chartwell incurred acquisition-related costs of \$135, which have been expensed in the condensed consolidated interim statements of comprehensive income.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

3. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
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
Additions	–	29,059	7,613	59,001	6,125	101,798
Additions through business combinations	16,268	293,160	6,348	–	–	315,776
Disposals	(6,434)	(19,909)	(1,261)	–	–	(27,604)
Derecognition	–	(23,615)	(356)	–	–	(23,971)
Transfers	804	6,785	48	1,070	(8,825)	(118)
Balance, June 30, 2018	\$ 310,390	\$ 3,080,955	\$ 134,377	\$ 151,519	\$ 20,027	\$ 3,697,268
Accumulated depreciation and impairment losses						
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
Depreciation	–	71,987	9,159	–	–	81,146
Disposals	–	(5,210)	(1,035)	–	–	(6,245)
Derecognition	–	(23,615)	(356)	–	–	(23,971)
Balance, June 30, 2018	\$ –	\$ 535,155	\$ 82,552	\$ –	\$ –	\$ 617,707
Carrying amounts						
Balance, December 31, 2017	\$ 299,752	\$ 2,303,482	\$ 47,201	\$ 91,448	\$ 22,727	\$ 2,764,610
Balance, June 30, 2018	310,390	2,545,800	51,825	151,519	20,027	3,079,561

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

3. Property, plant and equipment (continued):

On January 15, 2018, Chartwell disposed of vacant land in Nanaimo, British Columbia; with a net book value of \$2,462.

On February 6, 2018, Chartwell disposed of three properties in Quebec, with a net book value of \$17,570.

On March 7, 2018, Chartwell acquired vacant land in Oshawa, Ontario for \$6,000.

On May 11, 2018, Chartwell disposed of a property in Quebec, with a net book value of \$10,805.

During the six months ended June 30, 2018, Chartwell capitalized \$1,996 (June 30, 2017 - \$1,265) of borrowing costs related to development projects under construction at an average capitalization rate of 3.84% (June 30, 2017 - 3.85%).

As of June 30, 2018, the cost and accumulated depreciation of PP&E has been reduced by \$185,377 to remove the fully amortized value of resident contracts.

Chartwell commenced the development of four projects during the six months ended June 30, 2018 on previously owned lands and transferred \$8,825 from land held for development to properties under development and transferred costs related to completed development projects from properties under development to other components of PP&E.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

4. Other assets:

	June 30, 2018	December 31, 2017
Prepaid expenses and deposits	\$ 13,876	\$ 17,785
Restricted cash	1,299	2,366
Other assets	7,945	7,572
	<u>\$ 23,120</u>	<u>\$ 27,723</u>
Current	\$ 20,524	\$ 24,860
Non-current	2,596	2,863
	<u>\$ 23,120</u>	<u>\$ 27,723</u>

Other assets include receivables of \$3,025 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties (December 31, 2017 - \$2,659). Income guarantees are considered Level 3 in the fair value hierarchy. During the six months ended June 30, 2018, \$1,205 (six months ended June 30, 2017 - \$477) of income guarantees was collected. During the six months ended June 30, 2018, Chartwell recorded income support of \$1,624 related to the acquisition of a property in Alberta (note 2).

5. Loans receivable:

On March 23, 2018, Chartwell advanced a mezzanine loan of \$3,969 for development of a 221-suite retirement residence in Quebec.

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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6. Joint arrangements:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The following are Chartwell's joint arrangements as at June 30, 2018:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord ⁽¹⁾	37	Canada	50%	Joint operation
Chartwell-Welltower Operator ⁽¹⁾	37	Canada	50%	Joint venture ⁽²⁾
Batimo	4	Canada	85%	Joint operation
Chartwell Oakville Retirement Residence	1	Canada	50%	Joint venture ⁽²⁾
Chartwell Constantia Retirement Residence	1	Canada	50%	Joint venture ⁽²⁾
Chartwell Riverside Retirement Residence	1	Canada	50%	Joint operation
Chartwell Churchill Retirement Residence	1	Canada	50%	Joint operation
Oak Ridges Retirement Residence ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
Clair Hills Retirement Residence ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
The Sumach by Chartwell	1	Canada	45%	Joint operation
Kingston Project	1	Canada	60%	Joint venture ⁽²⁾

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

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

⁽³⁾Chartwell owns 100% of Class C units in these limited partnerships which were formed on acquisition of two properties in 2015. Affiliates of the vendors of the properties hold Class R units in the limited partnerships. 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 RETIREMENT RESIDENCES

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

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6. Joint arrangements (continued):

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

	Six months ended June 30,	
	2018	2017
Contributions to joint ventures	\$ 27,022	\$ 7,832
Distributions received from joint ventures	–	3,948

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 7,045	\$ 7,608
Trade and other receivables	4,812	3,481
Other assets	7,045	5,144
Current assets	18,902	16,233
PP&E and intangible assets (net of accumulated depreciation and amortization of \$29,197 and \$26,123)	109,538	107,979
Total assets	\$ 128,440	\$ 124,212
Accounts payable and other liabilities	\$ 50	\$ 2,811
Mortgages payable - current	12,250	20,575
Current liabilities	12,300	23,386
Mortgages payable - non-current	50,900	63,262
Total liabilities	\$ 63,200	\$ 86,648
Net investment in joint ventures	\$ 65,240	\$ 37,564

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

6. Joint arrangements (continued):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 30,895	\$ 30,854	\$ 61,899	\$ 61,714
Direct property operating expense	(18,777)	(18,973)	(38,529)	(37,778)
Lease expense	(9,447)	(8,699)	(18,111)	(17,228)
Finance costs	(401)	(553)	(877)	(1,107)
Depreciation of PP&E	(1,729)	(1,888)	(3,441)	(3,940)
Amortization of intangible assets		(1)		(5)
Change in fair value of financial instruments and foreign exchange gains (losses)	(210)	158	(259)	(221)
Other income (expense)	22	6	(28)	5
Chartwell's share of net income from joint ventures	\$ 353	\$ 904	\$ 654	\$ 1,440

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable, and in management and other fees revenue, as applicable. As of June 30, 2018, \$426 (December 31, 2017 - \$719) of Chartwell's accounts receivable and \$10,493 (December 31, 2017 - \$7,360) of Chartwell's accounts payable relate to its investments in joint ventures. For the three and six months ended June 30, 2018, \$1,647 and \$4,224, respectively (three and six months ended June 30, 2017 - \$1,738 and \$3,229, respectively) 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 37 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 is accounted for as joint ventures using the equity method.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
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6. Joint arrangements (continued):

Chartwell-Welltower Operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$9,447 and \$18,111 for the three and six months ended June 30, 2018, respectively (three and six months ended June 30, 2017 - \$8,699 and \$17,228, respectively) is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower Operator lease expense is included in the share of net income from joint ventures in the condensed consolidated interim statements of comprehensive income.

7. Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. The mortgages payable as at June 30, 2018 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2018	\$ 31,358	\$ 112,998	\$ 144,356	8
2019	62,131	115,787	177,918	10
2020	61,914	113,485	175,399	10
2021	59,952	105,201	165,153	10
2022	56,110	180,135	236,245	14
2023	49,916	60,419	110,335	7
2024	40,063	156,797	196,860	11
2025	33,235	44,335	77,570	5
2026	31,629	33,830	65,459	4
2027	28,680	63,176	91,856	5
2028	31,731	76,300	108,031	6
2029	22,261	–	22,261	1
2030	20,882	–	20,882	1
2031	19,434	–	19,434	1
2032	17,885	9,654	27,539	2
Thereafter	53,547	35,252	88,799	5
	<u>\$ 620,728</u>	<u>\$ 1,107,369</u>	1,728,097	<u>100</u>
Mark-to-market adjustments on acquisition			14,200	
Financing costs			(33,031)	
			<u>\$ 1,709,266</u>	
Current			\$ 216,248	
Non-current			1,493,018	
			<u>\$ 1,709,266</u>	

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
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7. Mortgages payable (continued):

	June 30, 2018	December 31, 2017
Mortgages at fixed rates:		
Mortgages (principal)	\$1,657,303	\$1,614,304
Interest rates	1.90% - 7.85%	1.90% - 7.85%
Weighted average interest rate	3.83%	3.86%
Mortgages at variable rates:		
Mortgages (principal)	\$70,794	\$15,631
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	3.89%	3.49%
Blended weighted average rate	3.83%	3.86%

Mortgages totalling \$117,988 (December 31, 2017 - \$135,448) 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 asset value of \$2,106 (December 31, 2017 - \$2,457) included in trade and other receivables.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

8. Credit facilities:

(a) 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 at the bank's prime rate plus 0.65% or banker's acceptance rate plus 1.65% based on Chartwell's current credit rating. 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, 2021. At June 30, 2018, the maximum available borrowing capacity under the credit facility was \$290,082 based on the security provided. Of this capacity, \$5,927 has been allocated to support various letters of credit issued by Chartwell and \$82,555 was drawn.

(b) 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 at the bank's prime rate plus 0.70% or banker's acceptance rate plus 1.70% based on Chartwell's current credit rating. 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 June 30, 2018, the maximum available borrowing capacity under the unsecured credit facility was \$90,194. At June 30, 2018, no amounts were drawn on this line. The unsecured credit facility matures on May 29, 2021.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

9. Senior unsecured debentures:

	June 30, 2018	December 31, 2017
Senior unsecured debentures outstanding	\$ 350,000	\$ 200,000
Financing costs, net	(2,082)	(1,407)
Carrying value	\$ 347,918	\$ 198,593

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 \$1,571 were incurred and are being amortized using the effective interest method (note 16). 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.

On April 27, 2018, Chartwell issued \$150,000 of 4.211% Series B senior unsecured debentures due on April 28, 2025, with semi-annual interest payments due on April 28 and October 28 of each year commencing October 28, 2018. Debt financing costs of \$799 were incurred and are being amortized using the effective interest method (note 16). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to February 25, 2025.

Under the terms of the indentures, Chartwell is required to meet certain financial covenants. These covenants include required debt service coverage ratios, indebtedness ratios, unencumbered asset ratio and other covenants.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
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10. Accounts payable and other liabilities:

	Note	June 30, 2018	December 31, 2017
Accounts payable and accrued liabilities		\$ 113,300	\$ 106,382
Resident deposits		3,493	2,932
Deferred revenue		1,298	571
Deferred Trust Units ("DTU")	(a)	14,150	14,186
Restricted Trust Units ("RTU")	(b)	5,227	6,547
EUPP option component	(c)	12,667	13,363
		\$ 150,135	\$ 143,981

(a) DTU:

The DTU fair value is determined using the market price for listed Trust Units since there is a one-for-one conversion feature. The market price of Trust Units as at June 30, 2018 was \$15.33 (December 31, 2017 - \$16.26).

	Units outstanding	Amount
Balance, December 31, 2016	928,618	\$ 13,620
Units issued	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
Units issued	33,567	518
Change in fair value and distributions	17,018	(554)
Balance, June 30, 2018	923,184	\$ 14,150

(b) RTU:

During the six months ended June 30, 2018, 247,225 notional Trust Units were granted, 7,712 notional Trust Units were cancelled, 12,022 notional Trust Units were issued in regard to distributions, and 117,429 notional Trust Units vested and were paid out. At June 30, 2018, 660,301 notional Trust Units remained outstanding (December 31, 2017 - 526,195).

The liability is measured at fair value based on the market price for Trust Units at each reporting period until settlement.

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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10. Accounts payable and other liabilities (continued):

(c) EUPP option component:

EUPP is considered a cash settled plan as Trust Units are considered to be liabilities under IFRS, and the fair value of the amounts payable 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.

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

	June 30, 2018	December 31, 2017
Expected volatility	12.36% - 17.36%	10.99% - 15.99%
Risk-free rate	2.47% - 2.63%	2.30% - 2.55%
Distribution yield	4.04% - 4.36%	3.73% - 3.97%

11. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability and are measured at fair value. Fair value is determined by using the market price for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy. The market price of Trust Units as at June 30, 2018 was \$15.33 per unit (December 31, 2017 - \$16.26 per unit). At June 30, 2018, 1,645,738 Class B Units were outstanding (December 31, 2017 - 1,648,738).

CHARTWELL RETIREMENT RESIDENCES

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

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
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 on 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
Balance, December 31, 2017	209,481,633	2,257,424
Trust Units issued under DRIP	722,973	10,632
Trust Units issued on exchange of Class B Units	3,000	45
Trust Units released on settlement of EUPP receivable	18,445	794
Issue costs pursuant to public offering	–	(267)
Balance, June 30, 2018	210,226,051	\$ 2,268,628

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
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
Trust Units issued under EUPP	115,348	1,787
Trust Units surrendered for cancellation under EUPP	(284)	(3)
Trust Units released on settlement of EUPP receivable	(18,445)	(194)
Balance, June 30, 2018	1,548,708	\$ 17,803

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

Chartwell monitors and operates its Retirement and Long-Term Care properties separately. The Retirement Operations segment includes 161 communities that Chartwell owns and operates in Canada. The retirement communities provide services to residents at rates generally 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 Condensed Consolidated Interim Financial Statements (continued)
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13. Segmented information (continued):

	Three months ended June 30, 2018						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 174,769	\$ 57,705	\$ 232,474	\$ –	\$ 232,474	\$ (30,799)	\$ 201,675
Management and other fees	–	–	–	2,512	2,512	–	2,512
Lease revenue from joint ventures	–	–	–	–	–	9,447	9,447
Interest income	–	–	–	1,040	1,040	(96)	944
	174,769	57,705	232,474	3,552	236,026	(21,448)	214,578
Expenses:							
Direct property operating	105,465	49,213	154,678	–	154,678	(18,777)	135,901
Adjusted net operating income ⁽¹⁾	<u>\$ 69,304</u>	<u>\$ 8,492</u>	<u>\$ 77,796</u>				
Depreciation of PP&E							40,783
Amortization of intangible assets							411
Share of net income from joint ventures							(353)
General, administrative and trust							12,052
Other income							(312)
Finance costs							19,572
Change in fair values of financial instruments and foreign exchange losses							(436)
							71,717
Income before income taxes							6,960
Income tax benefit (expense):							
Current							(18)
Deferred							26
							8
Net income							\$ 6,968
Expenditures for non-current assets:							
Acquisition of properties	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776
Capital additions	46,224	3,378	49,602	9,597	59,199	(2,134)	57,065

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

CHARTWELL RETIREMENT RESIDENCES

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

	Three months ended June 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 156,741	\$ 55,794	\$ 212,535	\$ –	\$ 212,535	\$ (30,830)	\$ 181,705
Management and other fees	–	–	–	2,451	2,451	–	2,451
Lease revenue from joint ventures	–	–	–	–	–	8,699	8,699
Interest income	–	–	–	1,025	1,025	(24)	1,001
	156,741	55,794	212,535	3,476	216,011	(22,155)	193,856
Expenses:							
Direct property operating	96,784	48,882	145,666	–	145,666	(18,973)	126,693
Adjusted net operating income ⁽¹⁾	<u>\$ 59,957</u>	<u>\$ 6,912</u>	<u>\$ 66,869</u>				
Depreciation of PP&E							34,902
Amortization of intangible assets							439
Share of net income from joint ventures							(904)
General, administrative and trust							10,121
Other expense							553
Finance costs							17,614
Change in fair values of financial instruments and foreign exchange gains							(1,765)
							60,960
Income before income taxes							6,203
Income tax benefit:							
Current							–
Deferred							106
							106
Net income							\$ 6,309
Expenditures for non-current assets:							
Acquisition of properties	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950
Capital additions	35,295	1,305	36,600	1,763	38,363	(2,729)	35,634

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

CHARTWELL RETIREMENT RESIDENCES

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

Six months ended June 30, 2018							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing Operations							
Revenue:							
Resident	\$ 342,975	\$ 114,061	\$ 457,036	\$ –	\$ 457,036	\$ (61,756)	\$ 395,280
Management and other fees	–	–	–	5,822	5,822	–	5,822
Lease revenue from joint ventures	–	–	–	–	–	18,111	18,111
Interest income	–	–	–	2,058	2,058	(143)	1,915
	342,975	114,061	457,036	7,880	464,916	(43,788)	421,128
Expenses:							
Direct property operating	210,308	99,469	309,777	–	309,777	(38,529)	271,248
Adjusted net operating income ⁽¹⁾	<u>\$ 132,667</u>	<u>\$ 14,592</u>	<u>\$ 147,259</u>				
Depreciation of PP&E							81,146
Amortization of intangible assets							823
Share of net income from joint ventures							(654)
General, administrative and trust							24,582
Other income							(13,232)
Finance costs							37,105
Change in fair values of financial instruments and foreign exchange losses							(2,344)
							127,426
Income before income taxes							22,454
Income tax benefit (expense):							
Current							(26)
Deferred							54
							28
Net income							\$ 22,482
Expenditures for non-current assets:							
Acquisition of properties	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776
Capital additions	87,780	4,734	92,514	14,232	106,746	(4,948)	101,798

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

CHARTWELL RETIREMENT RESIDENCES

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

	Six months ended June 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing Operations							
Revenue:							
Resident	\$ 313,369	\$ 110,279	\$ 423,648	\$ –	\$ 423,648	\$ (61,664)	\$ 361,984
Management and other fees	–	–	–	4,730	4,730	–	4,730
Lease revenue from joint ventures	–	–	–	–	–	17,228	17,228
Interest income	–	–	–	2,140	2,140	(50)	2,090
	313,369	110,279	423,648	6,870	430,518	(44,486)	386,032
Expenses:							
Direct property operating	193,337	97,077	290,414	–	290,414	(37,778)	252,636
Adjusted net operating income ⁽¹⁾	<u>\$ 120,032</u>	<u>\$ 13,202</u>	<u>\$ 133,234</u>				
Depreciation of PP&E and Amortization of intangible assets							72,480
Share of net income from joint ventures							936
General, administrative and trust							(1,440)
Other expense							20,526
Finance costs							1,924
Change in fair values of financial instruments and foreign exchange losses							34,198
							2,736
							131,360
Income before income taxes							2,036
Income tax benefit:							
Current							–
Deferred							106
							106
Net income							\$ 2,142
Expenditures for non-current assets:							
Acquisition of properties	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950
Capital additions	62,730	2,233	64,963	10,039	75,002	(9,664)	65,338

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

13. Segmented information (continued):

June 30, 2018	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,988,867	\$ 307,748	\$ 3,296,615	\$ 69,360	\$ 3,365,975	\$ (54,796)	\$ 3,311,179
Total liabilities	\$ 1,704,603	\$ 164,200	\$ 1,868,803	\$ 514,730	\$ 2,383,533	\$ (54,796)	\$ 2,328,737

December 31, 2017	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	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

14. Financial instruments:

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

	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	\$ 1,709,266	\$ 1,750,684	\$ 1,614,332	\$ 1,680,549
Credit facilities	82,555	82,555	—	—
Senior unsecured debentures	347,918	343,990	198,593	201,478

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

14. Financial instruments (continued):

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 June 30, 2018, the mortgages payable were discounted using rates between 2.91% and 4.40% (December 31, 2017 - 2.68% and 4.46%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

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

The fair value of senior unsecured debentures is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At June 30, 2018, senior unsecured debentures were discounted using a rate of 4.32%. 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.

15. Revenue:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Lease revenue ⁽¹⁾	\$ 80,314	\$ 156,805
Services revenue ⁽²⁾	133,320	262,408
Interest income	944	1,915
Total revenue	\$ 214,578	\$ 421,128

⁽¹⁾ Includes resident lease revenue and lease revenue from joint ventures.

⁽²⁾ Includes property services element in accordance with IFRS 15, long-term care services revenue and management fees.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

16. Finance costs:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Contractual interest expense on mortgages	\$ 16,341	\$ 15,745	\$ 31,834	\$ 31,509
Interest expense on senior unsecured debentures	3,013	456	4,880	456
Credit facility and other interest expense	1,005	1,300	1,450	2,647
	20,359	17,501	38,164	34,612
Interest capitalized to properties under development	(1,131)	(701)	(1,996)	(1,265)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	102	576	456	370
Distributions on Class B Units recorded as interest expense	242	238	481	481
Total finance costs	\$ 19,572	\$ 17,614	\$ 37,105	\$ 34,198

17. Other expense (income):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property lease expense	\$ 98	\$ 98	\$ 197	\$ 197
Transaction costs arising on business acquisitions and dispositions	2,612	816	3,439	2,416
Other expense	2,710	914	3,636	2,613
Other income	(134)	(263)	(268)	(553)
Gain on disposal of assets	(2,888)	(98)	(16,600)	(136)
Other income	(3,022)	(361)	(16,868)	(689)
Other expense (income)	\$ (312)	\$ 553	\$ (13,232)	\$ 1,924

On January 15, 2018, Chartwell sold vacant land in Nanaimo, British Columbia. The purchase price before working capital adjustments and closing costs was \$3,300 and was settled in cash. Chartwell recorded a gain on sale of these assets of \$838.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2018 and 2017
(Unaudited)

17. Other expense (income) (continued):

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. Chartwell recorded a gain on sale of these assets of \$11,641.

On May 11, 2018, Chartwell sold its 85% interest in a retirement residence in Quebec. The purchase price before working capital adjustments and closing costs was \$13,515 at Chartwell's ownership and was settled in cash. Chartwell recorded a gain on sale of these assets of \$2,706.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Change in fair value of interest rate swaps	\$ 263	\$ (1,593)	\$ 351	\$ (1,118)
Foreign exchange losses (gains)	(99)	88	(207)	163
Change in fair value of EUPP option component	(138)	17	(509)	1,265
Change in fair value of Class B Units	(529)	(179)	(1,535)	1,376
Change in fair value of DTU	(149)	17	(554)	1,045
Change in fair value of deferred purchase consideration	56	28	56	47
Change in fair value of net operating income guarantees	160	(143)	54	(42)
Change in fair values of financial instruments and foreign exchange losses (gains)	\$ (436)	\$ (1,765)	\$ (2,344)	\$ 2,736