

Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

Years ended December 31, 2016 and 2015



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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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 23, 2017
Toronto, Canada

CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2016 and 2015

	Note	2016	2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 30,050	\$ 3,002
Trade and other receivables		18,339	7,948
Capital funding receivable	6	5,663	5,243
Other assets	7	14,900	16,938
Total current assets		68,952	33,131
Non-current assets:			
Other assets	7	3,449	3,733
Loans receivable	8	10,528	15,764
Capital funding receivable	6	54,510	56,198
Investment in joint ventures	9(b)	30,822	33,993
Intangible assets	5	57,598	57,202
Property, plant and equipment ("PP&E")	4	2,570,848	2,399,368
Total non-current assets		2,727,755	2,566,258
Total assets		\$ 2,796,707	\$ 2,599,389
Liabilities and Unitholders' Equity			
Current liabilities:			
Secured revolving operating credit facilities ("Credit Facilities")	10(b)	\$ –	\$ 32,000
Accounts payable and other liabilities	12	121,870	114,036
Distributions payable		9,046	8,243
Mortgages payable	10(a)	143,695	159,699
Total current liabilities		274,611	313,978
Non-current liabilities:			
Mortgages payable	10(a)	1,498,077	1,371,659
Secured revolving operating credit facilities	10(b)	172,000	–
Deferred consideration on business combinations		1,647	1,535
Convertible debentures	11	–	161,754
Class B Units of Chartwell Master Care LP ("Class B Units")	14	23,871	20,943
Deferred tax liabilities	23	1,518	–
Total non-current liabilities		1,697,113	1,555,891
Total liabilities		1,971,724	1,869,869
Unitholders' equity	15	824,983	729,520
Commitments and contingencies	24		
Subsequent events	27		
Total liabilities and unitholders' equity		\$ 2,796,707	\$ 2,599,389

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, 2016 and 2015

	Note	2016	2015
Revenue:			
Resident		\$ 714,380	\$ 643,914
Management and other fees		8,777	7,815
Lease revenue from joint ventures	9(b)	33,803	33,000
Interest on loans receivable		1,252	1,142
		<u>758,212</u>	<u>685,871</u>
Expenses (income):			
Direct property operating	26	495,227	463,535
Depreciation of PP&E	4	145,586	113,756
Amortization of intangible assets	5	1,169	661
Share of net (income) loss from joint ventures	9(b)	(4,691)	186
General, administrative and trust	26	33,838	30,771
Other expense (income)	20	1,985	(2,669)
Finance costs	21	68,778	72,077
Change in fair values of financial instruments and foreign exchange gains	22	17,003	2,291
		<u>758,895</u>	<u>680,608</u>
Income (loss) before income taxes		(683)	5,263
Income tax benefit (expense):	23		
Current		(27)	(1,340)
Deferred		—	8,216
		<u>(27)</u>	<u>6,876</u>
Income (loss) from continuing operations		(710)	12,139
Discontinued operations:			
Net income from discontinued operations, net of income taxes	13	5,506	350,094
Net income		4,796	362,233
Other comprehensive income (loss):			
Unrealized foreign currency gain on translation of foreign operations considered discontinued operations		—	5,945
Reclassification of foreign currency translation differences on disposition of U.S. segment		—	(10,599)
Total comprehensive income		\$ 4,796	\$ 357,579

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, 2016 and 2015

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 Distribution Reinvestment Program ("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 Executive Unit Purchase Plan ("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. In the first two months of 2017, distributions were declared at \$0.046818 per unit per month totalling \$17,958.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

2015	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated gains (losses)	Foreign currency translation reserve	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2014	\$ 1,743,786	\$ 17,873	\$ (13,950)	\$ (521,537)	\$ 4,654	\$ (803,897)	\$ 6,669	\$ 433,598
Net income	–	–	–	362,233	–	–	–	362,233
Other comprehensive loss	–	–	–	–	(4,654)	–	–	(4,654)
Distributions to unitholders	–	–	–	–	–	(96,553)	–	(96,553)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	18,574	–	–	–	–	–	–	18,574
Trust Units issued on conversion of convertible debentures	149	–	–	–	–	–	–	149
Trust Units issued on exchange of Class B Units	14,590	–	–	–	–	–	–	14,590
Trust Units issued under EUPP, net of cancellations and Trust Units released on settlement of EUPP receivable	1,397	(984)	538	–	–	–	(123)	828
Interest on EUPP receivable	–	–	(134)	–	–	–	–	(134)
Distributions applied against EUPP receivable	–	–	889	–	–	–	–	889
Unitholders' equity, December 31, 2015	\$ 1,778,496	\$ 16,889	\$ (12,657)	\$ (159,304)	\$ –	\$ (900,450)	\$ 6,546	\$ 729,520

During the year ended December 31, 2015, distributions were declared and paid at \$0.045 per unit per month for the months of January and February, and \$0.0459 per unit 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, 2016 and 2015

	Note	2016	2015
Cash provided by (used in):			
Operating activities:			
Net income		\$ 4,796	\$ 362,233
Items not affecting cash:			
Depreciation and amortization		146,755	128,542
Finance costs		68,778	89,016
Other expense (income)		264	(433,539)
Transaction costs arising from business acquisitions and dispositions		(5,400)	(25,562)
Interest on loans receivable		(1,252)	(1,142)
Non-cash compensation expense		1,370	1,503
Change in fair values of financial instruments and foreign exchange gains		17,003	29,118
Current income taxes		(3,758)	57,516
Deferred income taxes		–	(8,216)
Share of net loss (income) from joint ventures		(4,691)	186
Other		1,484	650
Change in trade and other receivables		(4,299)	11,759
Change in other assets		3,224	1,380
Change in accounts payable and other liabilities		2,873	(10,245)
		227,147	203,199
Interest and other income received		4,338	3,487
Interest paid		(73,112)	(90,865)
		158,373	115,821
Financing activities:			
Proceeds from mortgage financing		208,970	282,792
Mortgage repayments		(106,243)	(184,440)
Changes to Credit Facilities		140,000	(13,500)
Scheduled mortgage principal repayments		(52,651)	(56,079)
Net additions to finance costs		(6,308)	(3,738)
Distributions paid		(83,424)	(76,935)
		100,344	(51,900)
Investing activities:			
Acquisition of assets under business combinations		(131,192)	(412,198)
Additions to PP&E and intangible assets		(122,350)	(84,395)
Proceeds from disposal of PPE, net of related debt repayment		2,460	479,809
Change in restricted cash		26	10,206
Proceeds from capital funding receivable		6,289	5,028
Change in loans receivable		5,236	(5,818)
Distributions received from joint ventures	9(b)	8,915	60,251
Contributions to joint ventures	9(b)	(1,053)	(77,591)
Taxes paid on disposal of discontinued operations		–	(47,602)
		(231,669)	(72,310)
Increase (decrease) in cash		27,048	(8,389)
Foreign exchange gain on U.S. dollar-denominated cash		–	464
Cash and cash equivalents, beginning of year		3,002	10,927
Cash and cash equivalents, end of year		\$ 30,050	\$ 3,002

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, 2016 and 2015

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.

The United States assets of Chartwell that were owned indirectly by Master LP, through its wholly owned United States subsidiary corporation, CSH Master Care USA Inc. were disposed of on June 30, 2015, and the results of operations are classified as discontinued operations in these consolidated financial statements (note 13).

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 23, 2017, 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, 2016 and 2015

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) note 2(c) - Estimating the useful life of property, plant and equipment;
- (iii) note 2(e) - 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, 2016 and 2015

1. Basis of preparation (continued):

- (iv) note 23 - 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.

These consolidated financial statements include Chartwell's proportionate share of each of the assets, liabilities, revenue and income 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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

2. Significant accounting policies (continued):

(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.

(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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

2. Significant accounting policies (continued):

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 include 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, 2016 and 2015

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:

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

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, 2016 and 2015

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, 2016 and 2015

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 is not 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, 2016 and 2015

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.

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 (excluding 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, 2016 and 2015

2. Significant accounting policies (continued):

(f) Capital funding:

Capital fundings are grants received from the Government of Ontario for the construction costs of long-term care properties. Capital funding grants for development of long-term care properties that are receivable from the Government of Ontario are recorded at fair value as capital funding receivable, with an offset to the cost of the related PP&E upon project completion. These grants are received over time and the accretion of the receivables are recognized in profit or loss as other income over the life of the grant.

(g) Non-current assets held for sale and discontinued operations:

Non-current 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 non-current 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, 2016 and 2015

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, 2016 and 2015

2. Significant accounting policies (continued):

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities have been classified into the following categories: other financial liabilities and financial liabilities at FVTPL.

Other financial liabilities:

Other financial liabilities primarily consist of accounts payable and other liabilities, distributions payable, mortgages payable 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 convertible debentures, 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, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015

2. Significant accounting policies (continued):

(ii) Unit-based payment plans:

Chartwell maintains an EUPP, Deferred Trust Unit Plans, and Restricted Unit Plans for its employees, directors and Trustees. These plans are considered cash-settled and 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, 2016 and 2015

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.

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. Deferred tax assets are reviewed at each reporting date and 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, 2016 and 2015

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, 2016 and 2015

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 2016:

(i) Business combination accounting for interests in a joint operation (Amendments to IFRS 11, Joint Arrangements ("IFRS 11")):

On May 6, 2014, the IASB amended IFRS 11 related to the accounting for acquisitions of interests in joint operations. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments require business combination accounting to be applied to acquisitions of interest in joint operations that constitute a business. Chartwell has prospectively adopted the amendments to IFRS 11 on January 1, 2016. The adoption of these amendments did not 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, 2016 and 2015

2. Significant accounting policies (continued):

- (ii) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38, Intangible Assets ("IAS 38")):

On May 12, 2014, the IASB issued amendments to IAS 16 and IAS 38. Under the amendments, revenue-based methods of depreciation can no longer be used for property, plant and equipment, and a rebuttable presumption that revenue-based methods are not appropriate has been introduced for intangible assets. Chartwell prospectively adopted the amendments to IAS 16 and IAS 38 on January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

- (iii) Annual Improvements to IFRS (2012 - 2014) cycle:

On September 25, 2014, the IASB issued narrow-scope amendments as part of its annual improvements process. The amendments apply for annual periods beginning on or after January 1, 2016. The amendments clarify requirements of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, IFRS 7, Financial Instruments - Disclosures, IAS 19 and Employee Benefits. Chartwell adopted these amendments on January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

- (iv) Amendments to IAS 1 Presentation of Financial Statements ("IAS 1"):

On December 18, 2014, the IASB issued amendments to IAS 1, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. Chartwell has adopted these amendments in its consolidated financial statements. The adoption of these amendments did not 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, 2016 and 2015

2. Significant accounting policies (continued):

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

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

On January 7, 2016, the IASB issued amendments to 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 intends to adopt the amendments to IAS 7 in its financial statements for the year beginning on January 1, 2017 and satisfy the new requirements by disclosing a reconciliation between the opening and closing balances for liabilities from financing activities.

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

On January 19, 2016 the IASB issued amendments to 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 will adopt the amendments to IAS 12 in its financial statements for the year beginning on January 1, 2017 and does not expect the amendments will have a material impact on the financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

2. Significant accounting policies (continued):

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

On June 20, 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments 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 intends to adopt the amendments to IFRS 2 in its financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the amendment has not yet been determined.

- (iv) IFRS 9, Financial Instruments ("IFRS 9 (2014)"):

On July 24, 2014, the IASB issued the complete IFRS 9 (2014). The effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and it must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, changes to financial liabilities, amendments to the impairment model for "expected credit loss", and a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. Chartwell intends to adopt IFRS 9 (2014) in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the new standard 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, 2016 and 2015

2. Significant accounting policies (continued):

(v) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016, the IASB issued 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 intends to adopt these amendments in its consolidated financial statements for the year beginning on January 1, 2019. The extent of the impact of adoption of the new standard has not yet been determined.

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

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 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 Standing Interpretation Committee 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single 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. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. Chartwell intends to adopt IFRS 15 in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the standard 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, 2016 and 2015

3. Acquisitions:

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

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	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 ⁽¹⁾	Total
Number of properties (suites)	1 (105 suites)	1 (97 suites) ⁽¹⁾	1 (109 suites)	1 (127 suites)	1 (121 suites)	Subtotal			
PP&E	\$ 66,166	\$ 11,841	\$ 37,405	\$ 70,324	\$ 31,501	\$ 217,237	\$ 11,841	\$ 229,078	
Goodwill	–	1,017	–	–	–	1,017	–	1,017	
Deferred tax liability	–	(1,518)	–	–	–	(1,518)	–	(1,518)	
Net assets acquired	\$ 66,166	\$ 11,340	\$ 37,405	\$ 70,324	\$ 31,501	\$ 216,736	\$ 11,841	\$ 228,577	
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	

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

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

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 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 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 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, 2016 and 2015

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 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, 2016 and 2015

3. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2015:

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:

Date of acquisition	May 4, 2015	June 1, 2015	July 31, 2015	August 5, 2015	September 11, 2015	November 9, 2015				
Segment	Canadian Retirement Operations									
Location	Province of Ontario	Province of Ontario	Province of Ontario	Province of Quebec	Province of Ontario	Province of Ontario			Step and equity accounting adjustments ⁽¹⁾⁽²⁾	Total
Number of properties (suites)	1 (94 suites)	2 (268 suites) ⁽¹⁾	1 (257 suites)	1 (90 suites)	3 (447 suites)	5 (616 suites) ⁽²⁾	Subtotal			
PP&E	\$ 22,100	\$ 41,120	\$ 83,979	\$ 15,223	\$ 169,319	\$ 259,131	\$ 590,872	\$	(34,881)	\$ 555,991
Goodwill	–	–	–	–	–	8,216	8,216	–	–	8,216
Deferred tax liability	–	–	–	–	–	(8,216)	(8,216)	–	–	(8,216)
Net assets acquired	\$ 22,100	\$ 41,120	\$ 83,979	\$ 15,223	\$ 169,319	\$ 259,131	\$ 590,872	\$	(34,881)	\$ 555,991
Cash consideration	\$ 22,100	\$ 20,274	\$ 83,979	\$ 4,686	\$ 169,800	\$ 187,359	\$ 488,198	\$	(76,000)	\$ 412,198
Mortgages assumed	–	20,846	–	9,244	–	56,636	86,726	–	20,846	107,572
Income support receivable	–	–	–	(162)	(1,987)	–	(2,149)	–	–	(2,149)
Mezzanine loan settled	–	–	–	1,455	–	–	1,455	–	–	1,455
Deferred consideration	–	–	–	–	1,506	–	1,506	–	–	1,506
Class B Units issued	–	–	–	–	–	15,136	15,136	–	–	15,136
Fair value of previously held interest	–	–	–	–	–	–	–	–	20,273	20,273
	\$ 22,100	\$ 41,120	\$ 83,979	\$ 15,223	\$ 169,319	\$ 259,131	\$ 590,872	\$	(34,881)	\$ 555,991

⁽¹⁾ Chartwell acquired the remaining interest in two previously held investments in joint arrangements. These figures represent the fair value of the remaining interests acquired. Step acquisition adjustments are included under the heading "Step and equity accounting adjustments".

⁽²⁾ This includes the acquisition of two investments in joint ventures. These investments are eliminated from the table under the heading "Step and equity accounting adjustments".

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

3. Acquisitions (continued):

On May 4, 2015, Chartwell acquired a 100% interest in a 94-unit retirement residence located in Thunder Bay, Ontario. The purchase price was \$22,100. The property has contributed revenue of \$3,990 (2015 - \$2,305) and net income of \$542 (2015 - net loss of \$414) since the acquisition date. Chartwell incurred acquisition-related costs of \$773, which have been expensed in the consolidated statement of comprehensive income in 2015.

On June 1, 2015, Chartwell acquired the remaining 50% interests in Valley Vista Retirement Residence (151 suites) and Pickering City Centre Retirement Residence (117 suites). Upon completion of these transactions, Chartwell owned a 100% interest in the properties. The purchase price was \$40,076 and was partially settled through the assumption of mortgages totalling \$19,802. A mortgage mark-to-market adjustment of \$1,044 was recorded on one of the assumed mortgages. Since these acquisitions were completed in steps, immediately before the acquisition, Chartwell remeasured its original 50% interests to its fair value. This remeasurement has resulted in an increase in value of \$10,452, which has been recognized as a gain in other expense (income) in the consolidated statements of comprehensive income. These properties have contributed revenue of \$10,822 (2015 - \$6,210) and net loss of \$341 (2015 - \$677) since the acquisition date. Chartwell incurred acquisition-related costs of \$673, which have been expensed in the consolidated statement of comprehensive income in 2015.

On July 31, 2015, Chartwell acquired a 100% interest in the Grenadier Retirement Residence in Toronto, Ontario (257 suites). The purchase price was \$83,979 and was settled in cash. The property has contributed revenue of \$13,507 (2015 - \$5,473) and net loss of \$2,078 (2015 - \$1,799) since the acquisition date. Chartwell incurred acquisition-related costs of \$2,444, which have been expensed in the consolidated statement of comprehensive income in 2015.

On August 5, 2015, Chartwell completed the acquisition of an 85% interest in a 90-suite addition (Phase II) to the existing 169-suite L' Unique retirement residence in Ste. Eustache, Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price of \$15,385 (\$18,100 at 100%) was settled through the assumption of a construction loan of \$9,244 (\$10,875 at 100%), settlement of the Chartwell mezzanine loan to Batimo of \$1,455 and cash. Batimo has provided Chartwell with an income support guarantee of up to \$162 if operating results fall below certain threshold amounts. L'Unique has contributed revenue of \$1,860 (2015 - \$531) and net loss of \$517 (2015 - \$301) since the acquisition date. Chartwell incurred acquisition-related costs of \$130, which have been expensed in the consolidated statement of comprehensive income in 2015.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

3. Acquisitions (continued):

On September 11, 2015, Chartwell acquired from three separate vendor groups, 100% interests in three retirement residences in Ontario totalling 447 suites and excess land for the development of up to 69 additional suites. The purchase price was \$171,645. Included in the purchase price is a deferred payment of \$1,845 due on the third anniversary of closing. This deferred consideration was recorded at its fair value of \$1,506. The vendor of another property provided Chartwell with an income support guarantee of up to \$2,500 if operating results fall below certain threshold amounts. This income support receivable was recorded at its fair value of \$1,987. The properties have contributed revenue of \$19,896 (2015 - \$5,389) and net loss of \$613 (2015 - \$4,887) since the acquisition date. Chartwell incurred acquisition-related costs of \$4,108, which have been expensed in the consolidated statement of comprehensive income in 2015.

On November 9, 2015, Chartwell acquired interests in five retirement residences in Ontario with a total of 616 suites, from five separate groups of vendors for an aggregate purchase price of \$254,007 before closing costs, mortgage mark-to-market and tax adjustments. The purchase price was settled by the assumption of two mortgages totaling \$51,512, bearing interest at a weighted average interest rate of 4.5% with the average term to maturity of 4.6 years, the issuance of \$15,136 of Class B Units and cash. One of the acquired properties is subject to a land lease that expires in 2056. Chartwell recorded a mortgage mark-to-market adjustment of \$5,124 with respect to the assumed mortgages. Chartwell also recorded a deferred tax liability and goodwill in the amount of \$8,216.

The acquisitions of two properties have been structured as acquisitions of interests in limited partnerships that own the related retirement residences. Chartwell owns all outstanding Class C Units of the partnerships and the affiliates of the vendors own all outstanding Class R Units. Under the partnership agreements, Class C Units are entitled to quarterly distributions totaling \$4,750 for 2016, increasing by 3% per annum thereafter until December 31, 2018. Class R Units are entitled to residual distributions up to a certain maximum. Once such maximum is achieved, the remaining distributions will be made in the ratio of 65% to Class C Units and 35% to Class R Units. The vendors of these properties and their affiliates provided the limited partnerships with the net operating income guarantees sufficient to effect the required Class C distributions. Signature Senior Living, an affiliate of one of the vendors, will continue to manage these two properties until December 31, 2018. 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's interests in these properties are accounted for using the equity method of accounting (note 9).

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

3. Acquisitions (continued):

The three properties in which Chartwell has a direct interest and which have been accounted for as business combinations, have contributed revenue of \$23,270 (2015 - \$3,244) and net loss of \$69 (2015 - \$2,931) since the acquisition date. Chartwell incurred acquisition-related costs of \$2,790 with respect to these three properties, which has been expensed in the consolidated statement of comprehensive income in 2015.

4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, January 1, 2015	\$ 327,865	\$ 2,723,321	\$ 97,058	\$ 14,658	\$ 27,211	\$ 3,190,113
Additions	–	60,839	8,413	13,291	–	82,543
Additions through business combinations	34,212	509,674	11,105	–	1,000	555,991
Disposals	(90,973)	(749,075)	(33,541)	–	(9,839)	(883,428)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Transfers	547	10,268	628	(13,204)	–	(1,761)
Exchange differences on translation of United States Operations	5,206	42,331	1,864	–	504	49,905
Balance, December 31, 2015	276,857	2,567,935	84,530	14,745	18,876	2,962,943
Additions	–	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
Accumulated depreciation and impairment losses						
Balance, January 1, 2015	\$ –	\$ 632,621	\$ 64,366	\$ 2,422	\$ 1,103	\$ 700,512
Depreciation	–	114,687	12,939	–	–	127,626
Disposals	–	(223,734)	(25,746)	–	(1,103)	(250,583)
Derecognition	–	(29,423)	(997)	–	–	(30,420)
Impairment, net	–	3,755	–	–	–	3,755
Exchange differences on translation of United States Operations	–	11,320	1,365	–	–	12,685
Balance, December 31, 2015	–	509,226	51,927	2,422	–	563,575
Depreciation	–	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
Carrying amounts						
Balance, December 31, 2015	\$ 276,857	\$ 2,058,709	\$ 32,603	\$ 12,323	\$ 18,876	\$ 2,399,368
Balance, December 31, 2016	285,060	2,166,267	36,807	59,657	23,057	2,570,848

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

4. Property, plant and equipment (continued):

During the year ended December 31, 2016, no properties were transferred from properties under development to operating (2015 - two properties).

During the year ended December 31, 2016, Chartwell transferred \$3,349 (2015 - nil) from land held for development to properties under development related to two projects that are currently under development.

Chartwell capitalized \$1,085 of borrowing costs related to development projects under construction for the year ended December 31, 2016, at an average interest rate of 4.05% (2015 - \$240 at 4.53%).

During the year ended December 31, 2016, the cost and accumulated depreciation of PP&E was reduced by \$176,795 related to fully amortized value of 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 2 properties located in Ontario and Quebec and reversed a previously recorded impairment provision of \$1,110 on one property in Quebec.

For the year ended December 31, 2015, Chartwell recorded impairment provisions of \$5,381 on four properties located in Quebec and Ontario. In addition, in 2015, Chartwell entered into an agreement to sell two properties located in Quebec. As a result, previously recorded property impairment provisions of \$1,626 were reversed.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

5. Intangible assets:

	Goodwill	Licenses	Other ⁽¹⁾	Total
Cost				
Balance, January 1, 2015	\$ –	\$ 44,334	\$ 17,787	\$ 62,121
Additions	–	–	2,095	2,095
Acquisitions	8,216	–	–	8,216
Disposals	–	–	(10,772)	(10,772)
Transfers	–	–	1,761	1,761
Exchange differences on translation of United States Operations	–	–	641	641
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
Accumulated amortization and impairment losses				
Balance, January 1, 2015	\$ –	\$ –	\$ 13,096	\$ 13,096
Amortization	–	–	916	916
Disposals	–	–	(7,606)	(7,606)
Exchange differences on translation of United States Operations	–	–	454	454
Balance, December 31, 2015	–	–	6,860	6,860
Amortization	–	–	1,169	1,169
Balance, December 31, 2016	\$ –	\$ –	\$ 8,029	\$ 8,029
Carrying amounts				
Balance, December 31, 2015	\$ 8,216	\$ 44,334	\$ 4,652	\$ 57,202
Balance, December 31, 2016	9,233	44,334	4,031	57,598

⁽¹⁾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, 2016 and 2015

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, 2016, and November 30, 2015. 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, 2016 and 2015.

6. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	Amount
Balance, December 31, 2014	\$ 66,469
Capital funding applied to receivable	(5,028)
Balance, December 31, 2015	61,441
Capital funding increase	5,021
Capital funding applied to receivable	(6,289)
Balance, December 31, 2016	\$ 60,173
Current	\$ 5,663
Non-current	54,510
	\$ 60,173

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

6. Capital funding receivable (continued):

The capital funding receivable of \$60,173 (2015 - \$61,441) 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 9.2 years. 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. 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.

7. Other assets:

	2016	2015
Prepaid expenses and deposits	\$ 10,963	\$ 11,130
Restricted cash	2,173	2,199
Other assets	5,213	7,342
	<u>\$ 18,349</u>	<u>\$ 20,671</u>
Current	\$ 14,900	\$ 16,938
Non-current	3,449	3,733
	<u>\$ 18,349</u>	<u>\$ 20,671</u>

Other assets include receivables of \$1,245 recorded at their fair value, related to income guarantees provided by vendors of certain acquired properties (2015 - \$3,264). Income guarantees are considered Level 3 in the fair value hierarchy. For the year ended December 31, 2016, \$2,803 (2015 - \$1,216) of income guarantees were collected.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

8. Loans receivable:

	2016	2015
Vendor take back ("VTB") loans	\$ 1,457	\$ 7,483
Mezzanine and other loans	9,071	8,281
	<u>\$ 10,528</u>	<u>\$ 15,764</u>

On June 23, 2016, VTB loans totalling \$6,000 were repaid.

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

Mezzanine and other loans are due from Batimo, mature between October 2019 and July 2020, 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.

9. Joint arrangements:

As at December 31, 2016, the following are Chartwell's joint arrangements:

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

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

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

⁽³⁾ Chartwell owns 100% of Class C Units in these limited partnerships (note 3), 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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

9. Joint arrangements (continued):

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

(a) At December 31, 2016, 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:

	2016	2015
Current assets	\$ 27,429	\$ 6,597
Non-current assets	423,564	431,826
Total assets	\$ 450,993	\$ 438,423
Current liabilities	\$ 53,162	\$ 63,742
Non-current liabilities	252,826	224,509
Total liabilities	\$ 305,988	\$ 288,251
Total revenue	\$ 48,317	\$ 48,147
Total expenses	\$ 35,783	\$ 40,535

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, 2016 and 2015

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:

	2016	2015
Distributions received from joint ventures	\$ 8,915	\$ 60,251
Contributions to joint ventures	1,053	77,591

	2016	2015
Current assets	\$ 16,887	\$ 13,542
Non-current assets	100,427	105,948
Total assets	\$ 117,314	\$ 119,490
Current liabilities	\$ 9,010	\$ 20,269
Non-current liabilities	77,482	65,228
Total liabilities	\$ 86,492	\$ 85,497
Net investment in joint ventures	\$ 30,822	\$ 33,993

Included in current assets is \$8,238 (2015 - \$5,852) in cash and cash equivalents.

	2016	2015
Revenue	\$ 120,353	\$ 106,213
Expenses	(115,662)	(106,399)
Chartwell's share of net income (loss) from joint ventures	\$ 4,691	\$ (186)

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

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 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 and lease revenue, as applicable. As of December 31, 2016, \$787 (2015 - \$244) of Chartwell's accounts receivable and \$4,642 (2015 - \$4,625) of Chartwell's accounts payable relate to its investment in joint ventures. For the year ended December 31, 2016, \$6,338 (2015 - \$5,555) 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 operators have leased the real estate from the landlords under their respective lease agreements. 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, \$33,803 for the year ended December 31, 2016 (2015 - \$33,000), is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower operator lease expense is included in the share of net income (loss) from joint ventures in the 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, 2016 and 2015

10. Secured debt:

(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 17.

The mortgages payable as at December 31, 2016 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
2017	\$ 52,639	\$ 87,233	\$ 139,872	9
2018	52,489	133,498	185,987	11
2019	51,410	223,726	275,136	17
2020	50,893	152,398	203,291	12
2021	48,843	75,687	124,530	8
2022	45,513	66,075	111,588	7
2023	41,401	56,326	97,727	6
2024	30,786	157,445	188,231	11
2025	24,349	44,335	68,684	4
2026	22,488	36,391	58,879	4
2027	20,503	–	20,503	1
2028	27,610	18,925	46,535	3
2029	18,580	–	18,580	1
2030	17,225	–	17,225	1
Thereafter	65,687	22,253	87,940	5
	<u>\$ 570,416</u>	<u>\$ 1,074,292</u>	1,644,708	<u>100</u>
Mark-to-market adjustments on acquisition			19,907	
Financing costs			(22,843)	
			<u>\$ 1,641,772</u>	
Current			\$ 143,695	
Non-current			1,498,077	
			<u>\$ 1,641,772</u>	

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

10. Secured debt (continued):

	2016	2015
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,612,233	\$ 1,365,860
Interest rates	1.79 to 8.51%	1.79 to 8.51%
Weighted average interest rate	3.91%	4.30%
Mortgages at variable rates:		
Mortgages (principal)	\$ 32,475	\$ 166,056
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	2.89%	3.01%
Blended weighted average rate	3.89%	4.16%

Mortgages totalling \$287,305 (2015 - \$124,978) 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 \$135 (2015 - \$803) included in accounts payable and other accrued liabilities and fair value asset of \$1,624 (2015 - nil) included in trade and other receivables.

(b) Credit Facilities:

- (i) Chartwell has a revolving Credit Facility with a syndicate of Canadian banks. The amounts outstanding on the Credit Facility bear interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.80% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.80%, depending on the ratio of Chartwell's debt to adjusted gross book value of assets ("D/GBV"), as defined in the credit agreement. The Credit Facility is secured by first-ranked and second-ranked charges on specific properties and includes minimum equity requirements and covenants, which include limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility matures on June 1, 2018. At December 31, 2016, the maximum available borrowing capacity under the Credit Facility was \$200,000 (2015 - \$199,134), based on the security provided. Of this capacity, as at December 31, 2016, \$4,241 (2015 - \$4,002) has been allocated to support various letters of credit issued by Chartwell and \$130,000 (2015 - \$32,000) was drawn under the Credit Facility.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

10. Secured debt (continued):

- (ii) On June 17, 2016, Chartwell arranged an additional Credit Facility with a Canadian chartered bank maturing on June 1, 2018. The amounts outstanding on this Credit Facility bear interest ranging from bank's prime rate plus 0.60% to bank's prime rate plus 0.75% or banker's acceptance rate plus 1.60% to banker's acceptance rate plus 1.75% depending on the ratio of Chartwell's D/GBV, as defined in the credit agreement. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The credit facility is secured by second-ranked charges on specific properties. At December 31, 2016, the maximum available borrowing capacity under the Credit Facility was \$50,000 based on the security provided. As at December 31, 2016, \$42,000 was drawn under the Credit Facility.

11. Convertible debentures:

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

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

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

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

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

12. Accounts payable and other liabilities:

	Note	2016	2015
Accounts payable and accrued liabilities		\$ 89,099	\$ 88,679
Resident deposits		2,596	2,846
Deferred revenue		115	528
Deferred Trust Units ("DTU")	(a)	13,620	10,501
Restricted Trust Units ("RTU")	(b)	4,935	3,118
EUPP option component	15(b)	11,505	8,364
		\$ 121,870	\$ 114,036

(a) Deferred Unit Plan:

Chartwell provides a Deferred Unit 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 Deferred Trust Units. 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 units, as defined in the plan, on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred 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. Deferred Trust Units cannot be distributed to the directors until after they retire from the board.

As described in note 2(i)(ii), this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the consolidated balance sheets. Deferred Trust Unit 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 to equity after retirement of the director. The market ask price of Trust Units as at December 31, 2016 was \$14.67 (2015 - \$12.76).

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

12. Accounts payable and other liabilities (continued):

The following table summarizes the Deferred Trust Unit activity:

	Units outstanding	Amount
Balance, December 31, 2014	692,049	\$ 8,269
Units granted	97,203	1,179
Change in fair value and distributions	33,914	1,053
Balance, December 31, 2015	823,166	10,501
Units granted	71,573	1,068
Change in fair value and distributions	33,879	2,051
Balance, December 31, 2016	928,618	\$ 13,620

The non-cash compensation expense attributable to DTUs granted of \$1,068 for the year ended December 31, 2016 (2015 - \$1,179) is included in general, administrative and trust expenses.

(b) Restricted Unit Plan ("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 Restricted Trust Units 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, 2016, 207,943 notional Trust Units were granted (2015 - 198,894), 29,295 notional Trust units were cancelled (2015 - 20,583), 22,214 notional Trust units were issued in regard to distributions (2015 - 19,897), and 138,090 notional Trust units vested and were paid out (2015 - 34,252). At December 31, 2016, 496,546 notional Trust Units remained outstanding (2015 - 433,774).

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

12. Accounts payable and other liabilities (continued):

The compensation expense attributable to the RTU Plan of \$3,734 for the year ended December 31, 2016 (2015 - \$2,062) is included in general, administrative and trust expenses.

13. 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:

	2016	2015
Resident revenue	\$ —	\$ 114,110
Direct operating costs	—	(80,819)
Finance costs	—	(16,939)
Other income (expense)	1,721	(1,371)
Depreciation of PP&E	—	(13,870)
Amortization of intangible assets	—	(255)
Change in fair values of financial instruments, foreign exchange and adjustments on mortgages	—	(26,827)
Gain on disposal of discontinued operations	—	432,241
Income before income taxes	1,721	406,270
Current income tax benefit (expense) (note 23)	3,785	(56,176)
Net income from discontinued operations	\$ 5,506	\$ 350,094
Cash flows from discontinued operations:		
Net cash provided by operating activities	\$ —	\$ 14,804
Net cash used in financing activities	—	(5,213)
Net cash provided by investing activities	—	427,045
Foreign exchange loss on cash	—	(7)
Effect on cash flows	\$ —	\$ 436,629

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

13. Discontinued operations (continued):

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.

14. 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.

	Units outstanding	Amount
Balance, December 31, 2014	1,641,323	\$ 19,614
Issuance of Class B Units (note 3)	1,187,170	15,136
Exchange of Class B Units into Trust Units	(1,187,170)	(14,590)
Change in fair value	–	783
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

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

15. 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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

15. Unitholders' equity and EUPP (continued):

The following Trust Units are issued and outstanding:

	Number of Trust Units	Amount
Balance, December 31, 2014	173,485,992	\$ 1,743,786
Trust Units issued under DRIP	1,595,951	18,574
Trust Units issued on conversion of debt	13,542	149
Trust Units issued in exchange of Class B Units	1,187,170	14,590
Trust Units released on settlement of EUPP receivable	118,546	1,397
Balance, December 31, 2015	176,401,201	1,778,496
Trust Units issued under DRIP	1,418,778	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

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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

15. Unitholders' equity and EUPP (continued):

(b) EUPP:

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the EUPP, of which 2,880,045 were available to be issued at December 31, 2016.

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
Balance, December 31, 2014	1,640,764	\$ 17,873
Trust Units issued under EUPP	71,734	856
Trust Units surrendered for cancellation under EUPP	(40,318)	(443)
Trust Units released on settlement of EUPP receivable	(118,546)	(1,397)
Balance, December 31, 2015	1,553,634	16,889
Trust Units issued under EUPP	79,454	1,072
Trust Units surrendered for cancellation under EUPP	(14,134)	(151)
Trust Units released on settlement of EUPP receivable	(103,566)	(1,222)
Balance, December 31, 2016	1,515,388	\$ 16,588

The non-cash compensation expense attributable to the EUPP of \$303 for the year ended December 31, 2016 (2015 - \$324) 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.

EUPP 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:

	2016	2015
Expected volatility	18.42% - 23.42%	15.32% - 20.32%
Risk-free rate	1.76% - 2.32%	1.78% - 2.41%
Distribution yield	4.28% - 4.75%	5.10% - 5.94%

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

15. Unitholders' equity and EUPP (continued):

(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%.

16. Segmented information:

Chartwell monitors and operates its Canadian Retirement and Canadian Long-Term Care properties separately. The Canadian Retirement Operations segment includes 155 communities that Chartwell owns and operates in Canada. The retirement communities provide services to age-qualified residents at rates set by Chartwell based on the services provided and market conditions. The Canadian 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. The accounting policies of each of the segments are the same as those for Chartwell. These segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column shows the adjustments to account for these joint ventures using the equity method, as applied in these 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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

16. Segmented information (continued):

2016	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations (note 13)	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing Operations								
Revenue:								
Resident Management and other fees	\$ 610,962	\$ 223,771	\$ -	\$ 834,733	\$ -	\$ 834,733	\$ (120,353)	\$ 714,380
Lease revenue from joint ventures	-	-	-	-	8,777	8,777	-	8,777
Loan interest	-	-	-	-	-	-	33,803	33,803
	-	-	-	-	1,252	1,252	-	1,252
	610,962	223,771	-	834,733	10,029	844,762	(86,550)	758,212
Expenses:								
Direct property operating	373,254	196,142	-	569,396	-	569,396	(74,169)	495,227
General, administrative and trust	-	-	-	-	33,838	33,838	-	33,838
	373,254	196,142	-	569,396	33,838	603,234	(74,169)	529,065
Income (loss) before the undernoted ⁽¹⁾	237,708	27,629	-	265,337	(23,809)	241,528	(12,381)	229,147
Finance costs:								
Contractual interest								(70,121)
Other								1,343
Other income (expense):								
Interest and other income								3,175
Other								(5,160)
Depreciation and amortization								(146,755)
Share of net income from joint ventures								4,691
Change in fair values of financial instruments and foreign exchange loss								(17,003)
								(229,830)
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
Net income								\$ 4,796
Expenditures for non-current assets:								
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

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

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

16. Segmented information (continued):

2015	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations (note 13)	Segment Total	Other	Subtotal	Reconciliation	Total
Continuing Operations								
Revenue:								
Resident Management and other fees	\$ 530,520	\$ 219,607	\$ –	\$ 750,127	\$ –	\$ 750,127	\$ (106,213)	\$ 643,914
Lease revenue from joint ventures	–	–	–	–	7,815	7,815	–	7,815
Loan interest	–	–	–	–	–	–	33,000	33,000
	–	–	–	–	1,142	1,142	–	1,142
	530,520	219,607	–	750,127	8,957	759,084	(73,213)	685,871
Expenses:								
Direct property operating General, administrative and trust	338,101	191,913	–	530,014	–	530,014	(66,479)	463,535
	–	–	–	–	30,771	30,771	–	30,771
	338,101	191,913	–	530,014	30,771	560,785	(66,479)	494,306
Income (loss) before the undernoted ⁽¹⁾	192,419	27,694	–	220,113	(21,814)	198,299	(6,734)	191,565
Finance costs:								
Contractual interest								(71,554)
Other								(523)
Other income (expense):								
Interest and other income								3,486
Other								(817)
Depreciation and amortization								(114,417)
Share of net loss from joint ventures								(186)
Change in fair values of financial instruments and foreign exchange losses								(2,291)
								(186,302)
Income before income taxes								5,263
Income tax benefit								6,876
Income from continuing operations								12,139
Net income from discontinued operations, net of income taxes								350,094
Net income								\$ 362,233
Expenditures for non-current assets:								
Acquisition of properties	\$ 515,916	\$ –	\$ –	\$ 515,916	\$ –	\$ 515,916	\$ 40,075	\$ 555,991
Capital additions	63,578	7,589	11,417	82,584	3,840	86,424	(1,786)	84,638

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

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)
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16. Segmented information (continued):

2016	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	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

2015	Canadian Retirement Operations	Canadian Long-Term Care Operations	United States Operations	Segment Total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,361,843	\$ 277,516	\$ -	\$ 2,639,359	\$ 41,558	\$ 2,680,917	\$ (81,528)	\$ 2,599,389
Total liabilities	\$ 1,480,010	\$ 210,169	\$ -	\$ 1,690,179	\$ 261,218	\$ 1,951,397	\$ (81,528)	\$ 1,869,869

17. Financial instruments and financial risk management:

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

The carrying amounts and fair values of financial instruments, not otherwise disclosed in these consolidated financial statements, as shown in the consolidated balance sheets, are shown in the table below. The table below excludes cash, 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.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial assets recorded at amortized cost:				
Loans receivable	\$ 10,528	\$ 10,528	\$ 15,764	\$ 15,764
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	1,641,772	1,688,374	1,531,358	1,610,416
Credit Facilities	172,000	172,000	32,000	32,000

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

17. 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 and require estimation, and 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, 2016, the mortgages payable were discounted using rates between 1.89% and 4.56% (2015 - 1.63% and 4.30%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

The fair values of the loan receivables and Credit Facilities approximates their carrying value, and are considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

(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)
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Years ended December 31, 2016 and 2015

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

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2015.

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)
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Years ended December 31, 2016 and 2015

17. 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, 2016, outstanding residents receivables were \$1,326 (2015 - \$1,311), net of an impairment reserve of \$960 (2015 - \$866).

(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.

The above liquidity needs are funded from cash flows from operating the property portfolio, through sourcing and utilization of property specific mortgages and Credit Facilities. The particular features and quality of the underlying assets and the debt market parameters existing at the time of financing may impact the ability for financing an individual property or amounts available under Credit Facilities. To provide for additional liquidity, Chartwell may also issue Trust Units and unsecured debentures, subject to market conditions. At December 31, 2016, Chartwell had \$30,050 in cash and \$73,759 available and undrawn on the Credit Facilities (note 10(b)).

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, 2016, Chartwell received \$192,238 (2015 - \$193,547) in funding in respect of these licenses, which has been recorded as resident revenue, other income and capital funding receivable, as applicable.

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

17. 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 our largest CMHC insured lenders, and contains certain financial and operating covenants.

There is also a risk that the Credit Facilities will not be renewed on terms and conditions acceptable to Chartwell or on any terms at all.

Chartwell's major contractual obligations as at December 31, 2016 are detailed in note 24.

(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, 2016 and 2015

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

At December 31, 2016, Chartwell's interest-bearing financial instruments were as follows:

	Carrying amount	
	2016	2015
Fixed-rate financial liabilities	\$ 1,612,233	\$ 1,500,711
Variable-rate financial liabilities	\$ 204,475	\$ 198,057

A change in interest rates at December 31, 2016 would not affect net income with respect to the fixed-rate instruments. Therefore, no sensitivity analysis is provided for the fixed-rate instruments.

An increase/decrease of 100-basis-points in interest rates at December 31, 2016 for the variable-rate financial instruments would have decreased/increased the income for the year by \$2,045 (on a pre-tax basis).

18. 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 loan 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)
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Years ended December 31, 2016 and 2015

18. 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 and borrowings under its Credit Facilities.

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

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

GBV means, at any time, the consolidated book value of the assets of Chartwell, as shown on Chartwell's most recent consolidated balance sheets (or if approved by a majority of the Independent Directors of Master LP at any time, the appraised value thereof), adjusted for Chartwell's line-by-line share of its joint ventures, plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto, 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 the related costs in respect of completed property acquisitions that were expensed in the period incurred.

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

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

18. Capital structure financial policies (continued):

The following are the Indebtedness ratios at December 31, 2016 and 2015:

	2016	2015	Increase (decrease)
Excluding convertible debentures	48.9%	45.9%	3.0%
Including convertible debentures	48.9%	49.7%	(0.8)%

Chartwell's capital management is conducted in accordance with policies stated under the Declaration of Trust and requirements from certain of its lenders. Under the terms of Chartwell's loan agreements with these lenders, Chartwell is required to meet certain financial and non-financial covenants. These covenants include: maintaining minimum equity, required debt service coverage ratios, Indebtedness ratios, minimum liquidity, intended property use, limitations on the amount of cash distributions that can be paid to unitholders and other covenants. There have been no changes in Chartwell's capital management strategy during the year.

19. Personnel expenses:

The analysis of employee benefits expense for the years ended December 31, 2016 and 2015, included in the consolidated statements of comprehensive income under direct operating expenses and general, administrative and trust expenses, is as follows:

	2016	2015
Salaries and wages	\$ 359,032	\$ 336,914
Post-employment benefits (defined contribution plans)	5,404	4,960
Unit-based compensation	5,104	3,566
	\$ 369,540	\$ 345,440

CHARTWELL RETIREMENT RESIDENCES

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

20. Other expense (income):

	2016	2015
Property lease expense	\$ 395	\$ 447
Impairment of PP&E, net of reversals (note 4)	6,390	3,755
Transaction costs arising on acquisitions and dispositions	5,400	12,034
Other expense	12,185	16,236
Gain on disposal of assets (a)	(1,838)	(4,967)
Gain recorded on remeasurement of previously held interest on acquisition (note 3)	(5,187)	(10,452)
Interest and other income	(3,175)	(3,486)
Other income	(10,200)	(18,905)
Other expense (income)	\$ 1,985	\$ (2,669)

(a) Gain on disposal of assets:

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 will 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 sheets. 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.

On June 2, 2015, Chartwell sold a non-core property in Quebec, included in the Canadian Retirement Segment. The sale price was \$8,000 and was settled through the purchaser's assumption of a mortgage in amount of \$5,252 and a \$1,500 vendor take-back mortgage provided by Chartwell with the balance of the purchase price paid in cash. Chartwell recorded a gain on sale of this asset of \$3,321.

For the year ended December 31, 2015, Chartwell completed other disposals of assets and recorded a gain of \$1,646.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

21. Finance costs:

	2016	2015
Contractual interest expense on mortgages	\$ 63,598	\$ 61,127
Interest expense on convertible debentures	2,611	7,690
Credit Facilities and other interest expense	3,912	2,737
	70,121	71,554
Interest capitalized to properties under development	(1,085)	(240)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	(1,162)	(193)
Distributions on Class B Units recorded as interest expense	904	956
Total finance costs	\$ 68,778	\$ 72,077

22. Changes in fair values of financial instruments and foreign exchange gains:

	2016	2015
Change in fair value of convertible debentures	\$ 11,441	\$ 10,703
Change in fair value of interest rate swaps	(2,245)	669
Foreign exchange gains	(202)	(10,675)
Change in fair value of EUPP option component	3,499	1,183
Change in fair value of Class B Units	3,130	783
Change in fair value of DTUs and distributions	2,051	1,053
Change in fair value of deferred purchase consideration	113	–
Change in fair value of net operating income guarantees	(784)	(1,425)
Change in fair values of financial instruments and foreign exchange gains	\$ 17,003	\$ 2,291

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

23. Income taxes:

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% (2015 - 49.53%). On January 1, 2016, the effective tax rate increased as a result of enacted federal legislative changes. The differences for the years ended December 31 are as follows:

	2016	2015
Income (loss) before income taxes	\$ (683)	\$ 5,263
Income tax expense (recovery) at Canadian tax rate	\$ (366)	\$ 2,607
Non-deductible expenses	1,349	1,212
Income (expense) not subject to tax	279	(6,296)
Tax benefits not recognized	946	9,838
Recognition of previously unrecognized tax benefits	(12,547)	(14,833)
Change in enacted tax rate	–	(5,074)
Effect of tax rates in corporate subsidiary	–	(191)
Non-deductible fair value changes	10,770	6,797
Other	(404)	(936)
Income tax expense (benefit) - continuing operations	\$ 27	\$ (6,876)

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

	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)
Net deferred tax liability	\$ –	\$ –	\$ (1,518)	\$ (1,518)

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

23. Income taxes (continued):

	Balance, January 1, 2015	Recognized in net income (loss)	Acquired in business combination	Balance, December 31, 2015
Property, plant and equipment	\$ 71,304	\$ (6,584)	\$ (8,216)	\$ 56,504
Intangible assets	(13,982)	503	–	(13,479)
Losses available for carryforward	9,978	(2,059)	–	7,919
Other	(13,987)	11,343	–	(2,644)
Gross deferred tax asset (tax effected)	53,313	3,203	(8,216)	48,300
Deferred tax assets not recognized	(53,313)	5,013	–	(48,300)
Net deferred tax liability	\$ –	\$ 8,216	\$ (8,216)	\$ –

As a result of the acquisition of a Canadian corporate subsidiary accounted for as a business combination during the year ended December 31, 2016, Chartwell recorded a deferred tax liability of \$1,518. The deferred tax liability is primarily attributable to the temporary differences between the accounting and tax basis of the PP&E held by the subsidiary.

Deferred tax assets have not been recognized for the following:

	2016	2015
Deductible temporary differences	\$ 33,818	\$ 60,107
Non-capital and capital losses carried forward	13,963	16,024
	\$ 47,781	\$ 76,131

Chartwell has non-capital losses carried forward of \$13,130, which will expire between 2027 and 2029, and capital losses carried forward of \$6,188. 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 recorded a current tax recovery of \$3,785 in discontinued operations related to the prior year sale of its U.S. subsidiary (note 13). The current tax recovery is attributable to a change in estimate of the U.S. taxes payable on the disposition of the shares of the U.S. subsidiary.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

24. Commitments and contingencies:

Chartwell's major contractual obligations as at December 31, 2016 are detailed in the following table:

	Note	Total	2017	2018	2019	2020	2021	Thereafter
Mortgages payable	10(a)	\$ 1,644,708	\$ 139,872	\$ 185,987	\$ 275,136	\$ 203,291	\$ 124,530	\$ 715,892
Accounts payable and other liabilities	12	121,870	121,870	–	–	–	–	–
Distributions payable		9,046	9,046	–	–	–	–	–
Purchase obligations	24(b)	106,490	53,042	53,448	–	–	–	–
Credit Facilities	10(b)	172,000	–	172,000	–	–	–	–
Operating leases	24(a)(i)	8,135	1,416	1,416	1,360	1,265	1,268	1,410
Land leases	24(a)(ii)	14,085	395	395	395	395	395	12,110
Total contractual obligations		\$ 2,076,334	\$ 325,641	\$ 413,246	\$ 276,891	\$ 204,951	\$ 126,193	\$ 729,412

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

24. 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, 2016, the remaining commitments under these contracts amounted to approximately \$94,049 (2015 - \$207). 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 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, 2016, there are six projects with 1,487 suites that are subject to this arrangement.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

24. Commitments and contingencies (continued):

(c) Letters of credit:

As at December 31, 2016, Chartwell was contingently liable for letters of credit in the amount of \$4,241 (2015 - \$4,002).

(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, 2016, outstanding balance on these loans was \$25,257 (2015 - \$12,787). 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, and three properties, which are 85% owned by Chartwell, to a maximum amount of \$73,638. As at December 31, 2016, outstanding balances on these loans was \$63,680 (\$19,928 of which represents partners share).

(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.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

25. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Officers' and directors' compensation	\$ 4,587	\$ 4,568
Post-employment benefits	67	63
Other long-term benefits	1,847	949
Unit-based payments	241	193

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.

26. Expenses by nature:

	2016	2015
Wages and benefits	\$ 369,540	\$ 345,440
Food and supplies	53,062	48,937
Realty taxes	26,132	24,017
Utilities	29,049	26,314
Other	51,282	49,598
	\$ 529,065	\$ 494,306
Included in the consolidated statements of income:		
Direct property operating	\$ 495,227	\$ 463,535
General, administrative and trust	33,838	30,771
	\$ 529,065	\$ 494,306

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2016 and 2015

27. Subsequent events:

On February 23, 2017, Chartwell announced a 2.5% increase in the monthly cash distributions from \$0.046818 per unit (\$0.561816 per unit on an annualized basis) to \$0.048 per unit (\$0.5760 per unit on an annualized basis) effective for the March 31, 2017 distribution payable on April 15, 2017.

On February 1, 2017, Chartwell acquired a 100% interest in a 107-suite residence located in Ontario. The purchase price before closing costs was \$22,000 and was settled in cash.

In January 9, 2017, Chartwell entered into a definitive agreement to acquire a 66-suite retirement residence in Ontario. The purchase price before closing costs is \$6,950 and will be settled in cash with closing expected in March 2017.

On January 19, 2017, Chartwell entered into a definitive agreement to sell a retirement residence located in Cote-Saint-Luc, Quebec. The transaction is expected to close May 3, 2017. The purchase price of \$23,500 is subject to rental support up to a maximum of \$2,500 for a period of two years, with the balance to be settled in cash. A Chartwell director is an officer and director of the purchaser of this property.

Subsequent to December 31, 2016, one VTB loan in the amount of \$1,457 was paid in full.