

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

As at and for the three months and six months ended
June 30, 2017 and 2016
(Unaudited)

CHARTWELL RETIREMENT RESIDENCES

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

	Note	June 30, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents		\$ 39,225	\$ 30,050
Trade and other receivables		12,734	18,339
Capital funding receivable		5,820	5,663
Other assets	4	134,973	14,900
Total current assets		192,752	68,952
Non-current assets:			
Other assets	4	2,765	3,449
Loans receivable	5	9,071	10,528
Capital funding receivable		51,561	54,510
Investment in joint ventures	6	36,146	30,822
Intangible assets		56,658	57,598
Property, plant and equipment ("PP&E")	3	2,571,719	2,570,848
Total non-current assets		2,727,920	2,727,755
Total assets		\$ 2,920,672	\$ 2,796,707
Liabilities and Unitholders' Equity			
Current liabilities:			
Accounts payable and other liabilities	10	\$ 101,791	\$ 121,870
Distributions payable		9,319	9,046
Mortgages payable	7	157,733	143,695
Total current liabilities		268,843	274,611
Non-current liabilities:			
Mortgages payable	7	1,511,664	1,498,077
Credit facilities	8	126,000	172,000
Senior Unsecured Debentures	9	198,909	–
Deferred consideration on business combinations	11	1,694	1,647
Class B Units of Chartwell Master Care LP ("Class B Units")	12	25,635	23,871
Deferred tax liabilities	19	1,412	1,518
Total non-current liabilities		1,865,314	1,697,113
Total liabilities		2,134,157	1,971,724
Unitholders' equity	13	786,515	824,983
Subsequent events	20		
Total liabilities and unitholders' equity		\$ 2,920,672	\$ 2,796,707

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

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

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
Revenue:					
Resident		\$ 181,705	\$ 177,719	\$ 361,984	\$ 352,040
Management and other fees		2,451	2,156	4,730	4,073
Lease revenue from joint ventures	6	8,699	8,446	17,228	16,746
Interest income		1,001	1,036	2,090	2,326
		193,856	189,357	386,032	375,185
Expenses (income):					
Direct property operating		126,693	122,959	252,636	244,167
Depreciation of PP&E	3	34,902	34,729	72,480	69,674
Amortization of intangible assets		439	292	936	592
Share of net income from joint ventures	6	(904)	(931)	(1,440)	(1,103)
General, administrative and trust		10,121	9,126	20,526	17,347
Other expense (income)	17	553	(3,393)	1,924	1,029
Finance costs	16	17,614	17,440	34,198	35,566
Change in fair values of financial instruments and foreign exchange losses (gains)	18	(1,765)	5,546	2,736	23,874
		187,653	185,768	383,996	391,146
Income (loss) before income taxes		6,203	3,589	2,036	(15,961)
Income tax benefit	19	106	–	106	–
Net income (loss) from continuing operations		6,309	3,589	2,142	(15,961)
Discontinued operations:					
Net income from discontinued operations, net of income taxes		–	3,596	–	3,274
Net income (loss) and comprehensive income (loss)		\$ 6,309	\$ 7,185	\$ 2,142	\$ (12,687)

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

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

During the six months ended June 30, 2017, distributions were declared and paid at \$0.046818 per unit per month for the months of January and February and \$0.0480 per unit per month for the months of March to June. In July 2017, distributions were declared at \$0.0480 per unit totalling \$9,246.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (continued)

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

(Unaudited)

Six months ended June 30, 2016	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated losses	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2015	\$ 1,778,496	\$ 16,889	\$ (12,657)	\$ (159,304)	\$ (900,450)	\$ 6,546	\$ 729,520
Net loss	–	–	–	(12,687)	–	–	(12,687)
Distributions to unitholders	–	–	–	–	(51,022)	–	(51,022)
Trust Units issued under DRIP	9,251	–	–	–	–	–	9,251
Trust Units issued on conversion of convertible debentures	173,194	–	–	–	–	–	173,194
Trust Units issued on exchange of Class B Units	151	–	–	–	–	–	151
Trust Units issued under EUPP, net of cancellations and Trust Units released on settlement of EUPP receivable	903	347	(527)	–	–	(25)	698
Interest on EUPP receivable	–	–	(63)	–	–	–	(63)
Distributions applied against EUPP receivable	–	–	438	–	–	–	438
Unitholders' equity, June 30, 2016	\$ 1,961,995	\$ 17,236	\$ (12,809)	\$ (171,991)	\$ (951,472)	\$ 6,521	\$ 849,480

During the six months ended June 30, 2016, distributions were declared and paid at \$0.0459 per unit for the months of January and February and \$0.046818 per unit for the months of March to June. In July 2016, distributions were declared at \$0.046818 per unit totalling \$8,943.

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 6,309	\$ 7,185	\$ 2,142	\$ (12,687)
Items not affecting cash:				
Depreciation and amortization	35,341	35,021	73,416	70,266
Finance costs	17,614	17,440	34,198	35,566
Other expense (income)	553	(3,371)	1,924	896
Transaction costs arising from business acquisitions and dispositions	(816)	(2,917)	(2,416)	(4,552)
Interest income	(1,001)	(1,036)	(2,090)	(2,326)
Non-cash compensation expense	307	329	856	823
Change in fair values of financial instruments and foreign exchange losses (gains)	(1,765)	5,546	2,736	23,874
Share of net income from joint ventures	(904)	(931)	(1,440)	(1,103)
Deferred income tax benefit	(106)	—	(106)	—
Other	896	592	1,385	722
Change in trade and other receivables	(741)	(5,560)	6,919	(5,490)
Change in other assets	(3,156)	198	(4,098)	771
Change in accounts payable and other liabilities	8,835	1,690	(11,899)	(16,299)
	61,366	54,186	101,527	90,461
Interest income and other income received	1,266	1,248	2,447	2,180
Interest paid	(17,544)	(17,601)	(34,517)	(38,129)
	45,088	37,833	69,457	54,512
Financing activities:				
Proceeds from mortgage financing	61,151	17,000	117,722	94,581
Mortgage repayments	(41,634)	(48,485)	(56,223)	(74,351)
Proceeds from issuance of senior unsecured debentures	200,000	—	200,000	—
Changes to Credit Facilities	(95,000)	115,000	(46,000)	132,000
Scheduled mortgage principal repayments	(14,396)	(13,186)	(28,327)	(26,140)
Net additions to finance costs	(5,354)	(276)	(7,007)	(1,711)
Distributions paid	(22,630)	(20,758)	(44,344)	(40,626)
	82,137	49,295	135,821	83,753
Investing activities:				
Acquisition of assets under business combinations	—	(69,440)	(28,950)	(99,691)
Additions to PP&E and intangible assets	(44,801)	(29,334)	(73,442)	(49,760)
Proceeds from disposal of PP&E	21,035	(424)	21,075	(39)
Proceeds from capital funding receivable	1,405	1,495	2,793	3,572
Collection of loans receivable	—	6,017	1,457	6,017
Change in restricted cash	(115,104)	(189)	(115,152)	274
Contributions to joint ventures	(2,041)	—	(7,832)	—
Distributions received from joint ventures	3,948	3,000	3,948	2,611
	(135,558)	(88,875)	(196,103)	(137,016)
Increase (decrease) in cash	(8,333)	(1,747)	9,175	1,249
Cash and cash equivalents, beginning of period	47,558	5,998	30,050	3,002
Cash and cash equivalents, end of period	\$ 39,225	\$ 4,251	\$ 39,225	\$ 4,251

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

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

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on August 10, 2017.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2016 with the exception of the impact of adopting the following accounting standards and amendments to standard:

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 has adopted the amendments to IAS 12 in its financial statements for the year beginning on January 1, 2017 and determined there is no material impact on its condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

1. Basis of preparation (continued):

The following IFRS standards and amendments are issued but not effective:

- (a) IFRS 15, Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue - Barter Transactions Involving Advertising Services. Chartwell will adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018. Chartwell is currently evaluating the impact of the standard on its various revenue streams. Areas of focus include identifying performance obligations and amounts of consideration that are variable, as well as assessing the application of the principles for allocating variable consideration. Chartwell expects to complete its assessment of the potential impact of adopting IFRS 15 during the second half of 2017.
- (b) Chartwell will adopt IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement, in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

Chartwell has commenced its evaluation of the impact of this standard on each of its financial instruments. Based upon Chartwell's existing financial instruments and related accounting policies at June 30, 2017, the principal areas impacted are: classification of financial assets, impairment of financial assets, and presentation of fair value changes for certain financial liabilities designated at fair value through profit or loss ("FVTPL"). IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 category of loans and receivables.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

1. Basis of preparation (continued):

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

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

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

Chartwell expects to complete its assessment of the impact of adopting IFRS 9 during the second half of 2017 and is not able at this time to estimate reasonably the impact that the standard will have on the consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

2. Acquisitions:

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

Date of acquisition	February 1, 2017	March 1, 2017	
Segment	Canadian Retirement Operations		
Location	Province of Ontario	Province of Ontario	
Number of properties (suites)	1 (107 suites)	1 (66 suites)	Total
PP&E	\$ 22,000	\$ 6,950	\$ 28,950
Net assets acquired	\$ 22,000	\$ 6,950	\$ 28,950
Cash consideration	\$ 22,000	\$ 6,950	\$ 28,950

On February 1, 2017, Chartwell acquired a 100% interest in a 107-suite retirement residence located in Vineland, Ontario. The purchase price before working capital adjustments and closing costs was \$22,000 and was settled in cash. The property has contributed revenue of \$1,739 and net loss of \$527 since acquisition. Chartwell incurred acquisition-related costs of \$881, which have been expensed in the condensed consolidated interim statements of comprehensive income (loss).

On March 1, 2017, Chartwell acquired a 100% interest in a 66-suite retirement residence located in Thunder Bay, Ontario. The purchase price before working capital adjustments and closing costs was \$6,950 and was settled in cash. The property has contributed revenue of \$594 and net loss of \$229 since acquisition. Chartwell incurred acquisition-related costs of \$158, which have been expensed in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

3. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
Balance, December 31, 2015	\$ 276,857	\$ 2,567,935	\$ 84,530	\$ 14,745	\$ 18,876	\$ 2,962,943
Additions	–	58,018	11,379	45,423	8,615	123,435
Additions through business combinations	12,155	211,812	4,511	–	600	229,078
Disposals	(4,378)	(37,823)	(1,729)	–	–	(43,930)
Derecognition	–	(218,664)	(1,221)	–	–	(219,885)
Capital subsidy receivable	–	(5,021)	–	–	–	(5,021)
Transfers	426	981	1,177	1,911	(5,034)	(539)
Balance, December 31, 2016	285,060	2,577,238	98,647	62,079	23,057	3,046,081
Additions	–	20,341	4,965	40,002	30	65,338
Additions through business combinations	2,280	26,091	579	–	–	28,950
Disposals	(4,175)	(33,466)	(1,077)	–	–	(38,718)
Derecognition	–	(16,068)	(216)	(2,422)	–	(18,706)
Transfers	1,260	23,561	1,854	(26,675)	–	–
Balance, June 30, 2017	\$ 284,425	\$ 2,597,697	\$ 104,752	\$ 72,984	\$ 23,087	\$ 3,082,945
Accumulated depreciation and impairment losses						
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	–	6,390	–	–	–	6,390
Balance, December 31, 2016	–	410,971	61,840	2,422	–	475,233
Depreciation	–	65,716	6,764	–	–	72,480
Disposals	–	(16,830)	(951)	–	–	(17,781)
Derecognition	–	(16,068)	(216)	(2,422)	–	(18,706)
Balance, June 30, 2017	\$ –	\$ 443,789	\$ 67,437	\$ –	\$ –	\$ 511,226
Carrying amounts						
Balance, December 31, 2016	\$ 285,060	\$ 2,166,267	\$ 36,807	\$ 59,657	\$ 23,057	\$ 2,570,848
Balance, June 30, 2017	284,425	2,153,908	37,315	72,984	23,087	2,571,719

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

3. Property, plant and equipment (continued):

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

During the six months ended June 30, 2017, Chartwell capitalized \$1,265 (June 30, 2016 - \$298) of borrowing costs related to development projects under construction at an average capitalization rate of 3.85% (June 30, 2016 - 4.0%).

Since January 1, 2010, the cost and accumulated depreciation of PP&E has been reduced by \$174,182 to remove fully amortized resident contracts.

4. Other assets:

	June 30, 2017	December 31, 2016
Prepaid expenses and deposits	\$ 15,073	\$ 10,963
Restricted cash	117,421	2,173
Other assets	5,244	5,213
	<u>\$ 137,738</u>	<u>\$ 18,349</u>
Current	\$ 134,973	\$ 14,900
Non-current	2,765	3,449
	<u>\$ 137,738</u>	<u>\$ 18,349</u>

At June 30, 2017, restricted cash included \$115,152 held in escrow pending acquisition of three properties in Ontario, which was completed on July 4, 2017 (note 20).

Other assets include receivables of \$809 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties (December 31, 2016 - \$1,245). Income guarantees are considered Level 3 in the fair value hierarchy. During the six months ended June 30, 2017, \$477 of income guarantees was collected.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

5. Loans receivable:

On February 22, 2017, a vendor take-back loan totalling \$1,457 was repaid.

6. Joint arrangements:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The following are Chartwell's joint arrangements as at June 30, 2017:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord ⁽¹⁾	38	Canada	50%	Joint operation
Chartwell-Welltower Operator ⁽¹⁾	38	Canada	50%	Joint venture ⁽²⁾
Batimo	4	Canada	85%	Joint operation
Chartwell Oakville Retirement Residence	1	Canada	50%	Joint venture ⁽²⁾
Chartwell Constantia Retirement Residence	1	Canada	50%	Joint venture ⁽²⁾
Chartwell Riverside Retirement Residence	1	Canada	50%	Joint operation
Chartwell Churchill Retirement Residence	1	Canada	50%	Joint operation
Oak Ridges Retirement Residence ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
Clair Hills Retirement Residence ⁽³⁾	1	Canada	(3)	Joint venture ⁽²⁾
The Sumach by Chartwell	1	Canada	45%	Joint operation
Kingston Project	1	Canada	60%	Joint venture ⁽²⁾

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

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

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

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

On June 27, 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 own a 45% interest and Daniels owns a 10% interest.

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

6. Joint arrangements (continued):

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

	Six months ended June 30,	
	2017	2016
Contributions to joint ventures	\$ 7,832	\$ 389
Distributions received from joint ventures	3,948	3,000

	June 30, 2017	December 31, 2016
Current assets	\$ 15,462	\$ 16,887
Non-current assets	106,162	100,427
Total assets	\$ 121,624	\$ 117,314
Current liabilities	\$ 16,103	\$ 9,010
Non-current liabilities	69,375	77,482
Total liabilities	\$ 85,478	\$ 86,492
Net investment in joint ventures	\$ 36,146	\$ 30,822

Included in current assets is \$6,044 of cash held by joint ventures (December 31, 2016 - \$8,238).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 30,830	\$ 29,690	\$ 61,664	\$ 59,410
Expenses	(29,926)	(28,759)	(60,224)	(58,307)
Chartwell's share of net income from joint ventures	\$ 904	\$ 931	\$ 1,440	\$ 1,103

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

6. Joint arrangements (continued):

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable, and in management fee revenue, as applicable. As of June 30, 2017, \$817 (December 31, 2016 - \$787) of Chartwell's accounts receivable and \$5,344 (December 31, 2016 - \$4,642) of Chartwell's accounts payable relate to its investments in joint ventures. For the three and six months ended June 30, 2017, \$1,738 and \$3,229, respectively (three and six months ended June 30, 2016 - \$1,512 and \$2,955, respectively) of Chartwell's management fees related to its investment in joint ventures.

Chartwell and Welltower (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 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 is accounted for as joint ventures using the equity method.

Chartwell-Welltower operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$8,699 and \$17,228 for the three and six months ended June 30, 2017, respectively (three and six months ended June 30, 2016 - \$8,446 and \$16,746, respectively) is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower Operator lease expense is included in the share of net income from joint ventures in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
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7. Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. The mortgages payable as at June 30, 2017 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2017	\$ 27,767	\$ 29,103	\$ 56,870	3
2018	55,786	133,395	189,181	11
2019	54,802	222,953	277,755	17
2020	58,813	153,919	212,732	13
2021	52,202	105,504	157,706	9
2022	48,645	66,799	115,444	7
2023	44,472	60,419	104,891	6
2024	34,468	156,797	191,265	11
2025	27,476	44,335	71,811	4
2026	25,706	33,830	59,536	4
2027	23,008	34,254	57,262	4
2028	29,241	18,925	48,166	3
2029	20,267	–	20,267	1
2030	18,836	–	18,836	1
2031	17,335	–	17,335	1
Thereafter	52,443	26,380	78,823	5
	<u>\$ 591,267</u>	<u>\$ 1,086,613</u>	1,677,880	<u>100%</u>
Mark-to-market adjustments on acquisition			17,871	
Financing costs			(26,354)	
			<u>\$ 1,669,397</u>	
Current			\$ 157,733	
Non-current			1,511,664	
			<u>\$ 1,669,397</u>	

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
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7. Mortgages payable (continued):

	June 30, 2017	December 31, 2016
Mortgages at fixed rates:		
Mortgages (principal)	\$ 1,632,652	\$ 1,612,233
Interest rates	1.90% - 7.85%	1.79% - 8.51%
Weighted average interest rate	3.81%	3.91%
Mortgages at variable rates:		
Mortgages (principal)	\$ 45,228	\$ 32,475
Interest rates	Bankers' acceptance plus 1.50% to prime plus 2.00%	Bankers' acceptance plus 1.50% to prime plus 2.00%
Weighted average interest rate	2.83%	2.89%
Blended weighted average rate	3.79%	3.89%

Mortgages totalling \$308,954 (December 31, 2016 - \$287,305) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2018 and 2021. The swaps have a fair value liability of nil (December 31, 2016 - \$135) included in accounts payable and other liabilities and fair value asset of \$2,606 (December 31, 2016 - \$1,624) included in trade and other receivables.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
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8. Credit facilities:

(a) Secured credit facility:

On May 29, 2017, Chartwell arranged for a \$200,000 secured revolving credit facility with a syndicate of Canadian financial institutions. The amounts outstanding on the secured credit facility bear interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.85% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.85%, depending on Chartwell's overall leverage ratio as defined in the credit agreement. The secured credit facility is secured by second-ranked charges on specific properties. The secured credit facility is subject to various financial covenants including among others, minimum equity requirements and limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders. The credit facility matures on May 29, 2020. At June 30, 2017, the maximum available borrowing capacity under the credit facility was \$192,164 based on the security provided. Of this capacity, \$4,090 has been allocated to support various letters of credit issued by Chartwell and \$126,000 was drawn.

The amounts outstanding under previous credit facilities were repaid from the proceeds of the new secured credit facility.

(b) Unsecured credit facility:

On May 29, 2017, Chartwell arranged for a \$100,000 unsecured credit facility with a syndicate of Canadian banks. The amounts outstanding on the unsecured credit facility bear interest ranging from the bank's prime rate plus 0.80% to bank's prime rate plus 1.10% or banker's acceptance rate plus 1.80% to banker's acceptance rate plus 2.10% depending on Chartwell's leverage ratio as defined in the credit agreement. The unsecured credit facility is subject to various financial covenants including among others, minimum equity requirements, minimum unencumbered asset ratio, limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders and limitation on the amount of secured indebtedness.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

9. Senior unsecured debentures:

	June 30, 2017	December 31, 2016
Senior unsecured debentures outstanding	\$ 200,000	\$ –
Financing costs, net	(1,091)	–
Carrying value	198,909	–

On June 9, 2017, Chartwell issued \$200,000 of 3.786% Series A senior unsecured debentures due on December 11, 2023, with semi-annual interest payments due on June 11 and December 11 of each year commencing December 11, 2017. Debt financing costs of \$1,105 were incurred and are being amortized using the effective interest method (note 16). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to October 11, 2023. Under the terms of the indenture, Chartwell is required to meet certain financial covenants. These covenants include, required debt service coverage ratios, indebtedness ratios, unencumbered asset ratio and other covenants.

10. Accounts payable and other liabilities:

	Note	June 30, 2017	December 31, 2016
Accounts payable and accrued liabilities		\$ 68,533	\$ 89,099
Resident deposits		2,495	2,596
Deferred revenue		484	115
Deferred Trust Units ("DTU")	(a)	12,788	13,620
Restricted Trust Units ("RTU")	(b)	5,096	4,935
EUPP option component	(c)	12,395	11,505
		\$ 101,791	\$ 121,870

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

10. Accounts payable and other liabilities (continued):

(a) DTU:

The DTU fair value is determined using the market price for listed Trust Units since there is a one-for-one conversion feature. The market price of Trust Units as at June 30, 2017 was \$15.52 (December 31, 2016 - \$14.67).

	Units outstanding	Amount
Balance, December 31, 2015	823,166	\$ 10,501
Units granted	71,573	1,068
Change in fair value and distributions	33,879	2,051
Balance, December 31, 2016	928,618	13,620
Units granted	34,403	535
Units exchanged for Trust units on vesting	(154,740)	(2,412)
Change in fair value and distributions	15,876	1,045
Balance, June 30, 2017	824,157	\$ 12,788

(b) RTU:

During the six months ended June 30, 2017, 208,503 notional Trust Units were granted, 12,473 notional Trust Units were cancelled, 10,428 notional Trust Units were issued in regard to distributions, and 94,947 notional Trust Units vested and were paid out. At June 30, 2017, 608,057 notional Trust Units remained outstanding (December 31, 2016 - 496,546).

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

CHARTWELL RETIREMENT RESIDENCES

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

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10. Accounts payable and other liabilities (continued):

(c) EUPP option component:

EUPP is considered a cash settled plan and the fair value of the amounts payable is recognized as an expense with a corresponding increase in liability over the employee service period. The liability is remeasured at each reporting date and at settlement date. Any change in liability is recognized in profit and loss.

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

	June 30, 2017	December 31, 2016
Expected volatility	14.35% - 19.35%	18.42% - 23.42%
Risk-free rate	1.93% - 2.41%	1.76% - 2.32%
Distribution yield	4.05% - 4.42%	4.28% - 4.75%

11. Deferred consideration on business combination:

Deferred purchase consideration relates to fair value of deferred payment on a 2015 acquisition. The amount is payable on September 11, 2018.

	June 30, 2017	December 31, 2016
Face value of deferred consideration	\$ 1,506	\$ 1,506
Interest accretion	188	141
Carrying value	\$ 1,694	\$ 1,647

CHARTWELL RETIREMENT RESIDENCES

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

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12. 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 fair value through profit or loss. Fair value is determined by using the market price for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy. The market price of Trust Units as at June 30, 2017 was \$15.52 per unit (December 31, 2016 - \$14.67 per unit). On March 1, 2017, Chartwell issued 31,565 Class B units for the purchase of vacant land in Mississauga, Ontario (note 3). At June 30, 2017, 1,651,738 Class B Units were outstanding (December 31, 2016 - 1,627,173).

13. Trust Units and EUPP:

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, December 31, 2015	176,401,201	\$ 1,778,496
Trust Units issued under DRIP	1,418,778	19,725
Trust Units issued on conversion and redemption of debt	12,157,779	173,194
Trust Units issued in exchange of Class B Units	14,150	202
Trust Units released on settlement of EUPP receivable	103,566	1,882
Balance, December 31, 2016	190,095,474	1,973,499
Trust Units issued under DRIP	653,133	9,831
Trust Units issued on vesting of DTU	154,740	2,412
Trust Units issued on exchange of Class B Units	7,000	111
Trust Units released on settlement of EUPP receivable	83,690	1,643
Balance, June 30, 2017	190,994,037	\$ 1,987,496

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

13. Trust Units and EUPP (continued):

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
Balance, December 31, 2015	1,553,634	\$ 16,889
Trust Units issued under EUPP	79,454	1,072
Trust Units surrendered for cancellation under EUPP	(14,134)	(151)
Trust Units released on settlement of EUPP receivable	(103,566)	(1,222)
Balance, December 31, 2016	1,515,388	16,588
Trust Units issued under EUPP	89,778	1,369
Trust Units surrendered for cancellation under EUPP	(4,784)	(50)
Trust Units released on settlement of EUPP receivable	(83,690)	(946)
Balance, June 30, 2017	1,516,692	\$ 16,961

14. Segmented information:

Chartwell monitors and operates its Canadian Retirement and Canadian Long-Term Care properties separately. The Canadian Retirement Operations segment includes 156 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 condensed consolidated interim financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

14. Segmented information (continued):

	Three months ended June 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 156,740	\$ 55,795	\$ 212,535	\$ –	\$ 212,535	\$ (30,830)	\$ 181,705
Management and other fees	–	–	–	2,451	2,451	–	2,451
Lease revenue from joint ventures	–	–	–	–	–	8,699	8,699
Interest income	–	–	–	1,025	1,025	(24)	1,001
	156,740	55,795	212,535	3,476	216,011	(22,155)	193,856
Expenses:							
Direct property operating	96,784	48,882	145,666	–	145,666	(18,973)	126,693
General, administrative and trust	–	–	–	10,121	10,121	–	10,121
	96,784	48,882	145,666	10,121	155,787	(18,973)	136,814
Income (loss) before the undernoted ⁽¹⁾	59,956	6,913	66,869	(6,645)	60,224	(3,182)	57,042
Finance costs:							
Contractual interest							(17,501)
Other							(113)
Other expense							(553)
Depreciation and amortization							(35,341)
Share of net income from joint ventures							904
Change in fair values of financial instruments and foreign exchange gains							1,765
Income before taxes							6,203
Income tax benefit							106
Net income							\$ 6,309
Expenditures for non-current assets:							
Acquisition of properties	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950
Capital additions	35,295	1,305	36,600	1,763	38,363	(2,729)	35,634

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

14. Segmented information (continued):

	Three months ended June 30, 2016						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing operations:							
Revenue:							
Resident Management and other fees	\$ 152,211	\$ 55,198	\$ 207,409	\$ –	\$ 207,409	\$ (29,690)	\$ 177,719
Lease revenue from joint ventures	–	–	–	–	–	8,446	8,446
Interest income	–	–	–	1,058	1,058	(22)	1,036
	152,211	55,198	207,409	3,214	210,623	(21,266)	189,357
Expenses:							
Direct property operating	93,404	47,686	141,090	–	141,090	(18,131)	122,959
General, administrative and trust	–	–	–	9,126	9,126	–	9,126
	93,404	47,686	141,090	9,126	150,216	(18,131)	132,085
Income (loss) before the undernoted ⁽¹⁾	58,807	7,512	66,319	(5,912)	60,407	(3,135)	57,272
Finance costs:							
Contractual interest							(17,681)
Other							241
Other income							3,393
Depreciation and amortization							(35,021)
Share of net income from joint ventures							931
Change in fair values of financial instruments and foreign exchange losses							(5,546)
Income (loss) from continuing operations							3,589
Net income from discontinued operations, net of income taxes							3,596
Net income							\$ 7,185
Expenditures for non-current assets:							
Acquisition of properties	\$ 132,428	\$ –	\$ 132,428	\$ –	\$ 132,428	\$ –	\$ 132,428
Capital additions	26,724	1,693	28,417	1,701	30,118	(613)	29,505

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

CHARTWELL RETIREMENT RESIDENCES

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

	Six months ended June 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing Operations							
Revenue:							
Resident Management and other fees	\$ 313,369	\$ 110,279	\$ 423,648	\$ –	\$ 423,648	\$ (61,664)	\$ 361,984
Lease revenue from joint ventures	–	–	–	4,730	4,730	–	4,730
Interest income	–	–	–	–	–	17,228	17,228
	–	–	–	2,140	2,140	(50)	2,090
	313,369	110,279	423,648	6,870	430,518	(44,486)	386,032
Expenses:							
Direct property operating	193,337	97,077	290,414	–	290,414	(37,778)	252,636
General, administrative and trust	–	–	–	20,526	20,526	–	20,526
	193,337	97,077	290,414	20,526	310,940	(37,778)	273,162
Income (loss) before the undernoted ⁽¹⁾	120,032	13,202	133,234	(13,656)	119,578	(6,708)	112,870
Finance costs:							
Contractual interest							(34,612)
Other							414
Other expense							(1,924)
Depreciation and amortization							(73,416)
Share of net income from joint ventures							1,440
Change in fair values of financial instruments and foreign exchange losses							(2,736)
Income before taxes							2,036
Income tax benefit							106
Net income							\$ 2,142
Expenditures for non-current assets:							
Acquisition of properties	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950
Capital additions	62,730	2,233	64,963	10,039	75,002	(9,664)	65,338

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

CHARTWELL RETIREMENT RESIDENCES

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

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14. Segmented information (continued):

	Six months ended June 30, 2016						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing operations:							
Revenue:							
Resident Management and other fees	\$ 301,503	\$ 109,947	\$ 411,450	\$ –	\$ 411,450	\$ (59,410)	\$ 352,040
Lease revenue from joint ventures	–	–	–	4,073	4,073	–	4,073
Interest income	–	–	–	–	–	16,746	16,746
	–	–	–	2,372	2,372	(46)	2,326
	301,503	109,947	411,450	6,445	417,895	(42,710)	375,185
Expenses:							
Direct property operating	184,961	95,904	280,865	–	280,865	(36,698)	244,167
General, administrative and trust	–	–	–	17,347	17,347	–	17,347
	184,961	95,904	280,865	17,347	298,212	(36,698)	261,514
Income (loss) before the undernoted ⁽¹⁾	116,542	14,043	130,585	(10,902)	119,683	(6,012)	113,671
Finance costs:							
Contractual interest							(35,966)
Other							400
Other expense							(1,029)
Depreciation and amortization							(70,266)
Share of net income from joint ventures							1,103
Change in fair values of financial instruments and foreign exchange losses							(23,874)
Income (loss) from continuing operations							(15,961)
Net income from discontinued operations, net of income taxes							3,274
Net loss							\$ (12,687)
Expenditures for non-current assets:							
Acquisition of properties	\$ 198,594	\$ –	\$ 198,594	\$ –	\$ 198,594	\$ –	\$ 198,594
Capital additions	45,830	2,311	48,141	2,658	50,799	(745)	50,054

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

CHARTWELL RETIREMENT RESIDENCES

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

June 30, 2017	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,544,405	\$ 258,100	\$ 2,802,505	\$ 198,382	\$ 3,000,887	\$ (80,215)	\$ 2,920,672
Total liabilities	\$ 1,627,483	\$ 190,213	\$ 1,817,696	\$ 396,676	\$ 2,214,372	\$ (80,215)	\$ 2,134,157

15. Financial instruments:

Classification, carrying values and fair values of financial instruments:

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

	June 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Financial assets recorded at amortized cost:				
Loans receivable	\$ 9,071	\$ 9,071	\$ 10,528	\$ 10,528
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	1,669,397	1,721,120	1,641,772	1,688,374
Credit facilities	126,000	126,000	172,000	172,000
Senior Unsecured debentures	198,909	200,766	-	-

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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15. Financial instruments (continued):

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

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

The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At June 30, 2017, the mortgages payable were discounted using rates between 2.09% and 4.33% (December 31, 2016 - 1.89% and 4.56%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

The fair values of the loans receivable and credit facilities approximate their carrying values and are considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

The fair value of senior unsecured debentures is an estimate made at a specific point in time, based on relevant market information. As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of senior unsecured debentures is Level 2 in the fair value hierarchy.

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (continued)
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16. Finance costs:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Contractual interest expense on mortgages	\$ 15,745	\$ 15,980	\$ 31,509	\$ 32,075
Interest expense on convertible debentures	–	701	–	2,611
Interest expense on Series A unsecured debentures	456	–	456	–
Credit facility and other interest expense	1,300	1,000	2,647	1,280
	17,501	17,681	34,612	35,966
Interest capitalized to properties under development	(701)	(175)	(1,265)	(298)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	576	(284)	370	(548)
Distributions on Class B Units recorded as interest expense	238	218	481	446
Total finance costs	\$ 17,614	\$ 17,440	\$ 34,198	\$ 35,566

17. Other expense (income):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property lease expense	\$ 98	\$ 98	\$ 197	\$ 197
Impairment of PP&E	–	–	–	3,000
Transaction costs arising on business acquisitions and dispositions	816	2,917	2,416	4,552
Other expense	914	3,015	2,613	7,749
Other income	(263)	–	(553)	–
Gain on disposal of assets	(98)	(1,221)	(136)	(1,533)
Gain recorded on remeasurement of previously held interest on acquisition	–	(5,187)	–	(5,187)
Other income	(361)	(6,408)	(689)	(6,720)
Other expense (income)	\$ 553	\$ (3,393)	\$ 1,924	\$ 1,029

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

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

17. Other expense (income):

In the six months ended June 30, 2016, Chartwell recorded an impairment provision of \$3,000 on one long-term care property located in Ontario.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Change in fair value of convertible debentures	\$ –	\$ (977)	\$ –	\$ 11,441
Change in fair value of interest rate swaps	(1,593)	(4)	(1,118)	143
Foreign exchange losses (gains)	88	(55)	163	47
Change in fair value of EUPP option component	17	2,303	1,265	4,456
Change in fair value of Class B Units	(179)	2,708	1,376	4,940
Change in fair value of DTU	17	1,543	1,045	2,791
Change in fair value of deferred purchase consideration	28	28	47	56
Change in fair value of net operating income guarantees	(143)	–	(42)	–
Change in fair values of financial instruments and foreign exchange losses (gains)	\$ (1,765)	\$ 5,546	\$ 2,736	\$ 23,874

19. Income taxes:

Chartwell recorded a deferred tax recovery of \$106 for the six months ended June 30, 2017 related to the reversal of temporary differences between accounting and tax basis of the PP&E held by a corporate subsidiary.

CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and six months ended June 30, 2017 and 2016
(Unaudited)

20. Subsequent events:

Consistent with its strategy to expand its core business in its Canadian markets, Chartwell completed the acquisition of the following facilities:

- (a) On July 4, 2017, Chartwell acquired a 100% interest in three retirement residences in Ontario totalling 522 suites. The purchase price before closing costs was \$ 121,000 and was settled in cash.
- (b) On July 20, 2017, Chartwell acquired an 85% interest in a 343 suite retirement residence located in Quebec in accordance with the terms of an existing construction contract with the vendor. The purchase price before closing costs was \$60,775 and was settled by assumption of a construction loan of \$37,060, settlement of a mezzanine loan of \$5,857 and cash. The vendor has agreed to provide Chartwell with occupancy support.

Chartwell has not yet completed the allocation of the amounts for each major class of assets acquired due to the timing of the acquisitions.