

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

As at and for the three months ended March 31, 2018  
and 2017  
(Unaudited)

# CHARTWELL RETIREMENT RESIDENCES

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

	Note	March 31, 2018	December 31, 2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 15,356	\$ 44,751
Trade and other receivables		16,703	11,840
Capital funding receivable		6,063	5,981
Other assets	3	23,424	24,860
Assets held for sale	10	10,232	10,113
<b>Total current assets</b>		<b>71,778</b>	<b>97,545</b>
Non-current assets:			
Other assets	3	2,621	2,863
Loans receivable	4	10,722	6,753
Capital funding receivable		46,984	48,530
Investment in joint ventures	5	64,887	37,564
Intangible assets		55,689	56,034
Property, plant and equipment ("PP&E")	2	2,748,763	2,764,610
<b>Total non-current assets</b>		<b>2,929,666</b>	<b>2,916,354</b>
<b>Total assets</b>		<b>\$ 3,001,444</b>	<b>\$ 3,013,899</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Accounts payable and other liabilities	9	\$ 129,623	\$ 143,981
Distributions payable		10,439	10,203
Mortgages payable	6	161,311	165,300
Deferred consideration on business combinations		1,760	1,760
Liabilities related to assets held for sale	10	6,653	6,641
<b>Total current liabilities</b>		<b>309,786</b>	<b>327,885</b>
Non-current liabilities:			
Mortgages payable	6	1,430,148	1,449,032
Credit facilities	7	35,000	—
Senior unsecured debentures	8	198,623	198,593
Class B Units of Chartwell Master Care LP ("Class B Units")	11	25,803	26,808
Deferred tax liabilities		1,386	1,414
<b>Total non-current liabilities</b>		<b>1,690,960</b>	<b>1,675,847</b>
<b>Total liabilities</b>		<b>2,000,746</b>	<b>2,003,732</b>
Unitholders' equity	12	1,000,698	1,010,167
Subsequent events	19		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 3,001,444</b>	<b>\$ 3,013,899</b>

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 March 31,	
		2018	2017
<b>Revenue:</b>			
Resident		\$ 193,605	\$ 180,279
Management and other fees		3,310	2,279
Lease revenue from joint ventures	5	8,664	8,529
Interest income		971	1,089
		<u>206,550</u>	<u>192,176</u>
<b>Expenses (income):</b>			
Direct property operating		135,347	125,943
Depreciation of PP&E	2	40,363	37,578
Amortization of intangible assets		412	497
Share of net income from joint ventures	5	(301)	(536)
General, administrative and trust		12,530	10,405
Other expense (income)	17	(12,920)	1,371
Finance costs	16	17,533	16,584
Change in fair values of financial instruments and foreign exchange (gains) losses	18	(1,908)	4,501
		<u>191,056</u>	<u>196,343</u>
Income (loss) before income taxes		15,494	(4,167)
<b>Income tax benefit (expense):</b>			
Current		(8)	–
Deferred		28	–
		<u>20</u>	<u>–</u>
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 15,514</b>	<b>\$ (4,167)</b>

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)

Three months ended March 31, 2018	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, 2017	\$ 2,257,424	\$ 16,213	\$ (11,362)	\$ (141,426)	\$ (1,117,176)	\$ 6,494	\$ 1,010,167
Net income				15,514			15,514
Distributions to unitholders					(30,597)		(30,597)
Issue costs related to Trust Units pursuant to public offering	(271)						(271)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	5,322						5,322
Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	242	1,663	(1,608)			85	382
Interest on EUPP receivable			(28)				(28)
Distributions applied against EUPP receivable			209				209
<b>Unitholders' equity, March 31, 2018</b>	<b>\$ 2,262,717</b>	<b>\$ 17,876</b>	<b>\$ (12,789)</b>	<b>\$ (125,912)</b>	<b>\$ (1,147,773)</b>	<b>\$ 6,579</b>	<b>\$ 1,000,698</b>

During the three months ended March 31, 2018, distributions were declared and paid at \$0.048 per unit per month for the months of January and February and \$0.049 per unit per month for March. In April 2018, distributions were declared at \$0.049 per unit totalling \$10,364.

# CHARTWELL RETIREMENT RESIDENCES

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

Three months ended March 31, 2017	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated 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 loss	–	–	–	(4,167)	–	–	(4,167)
Distributions to unitholders	–	–	–	–	(27,147)	–	(27,147)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	5,000	–	–	–	–	–	5,000
Trust Units issued on exchange of Class B Units	54	–	–	–	–	–	54
Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	532	978	(1,018)	–	–	69	561
Interest on EUPP receivable	–	–	(29)	–	–	–	(29)
Distributions applied against EUPP receivable	–	–	212	–	–	–	212
Unitholders' equity, March 31, 2017	\$ 1,979,085	\$ 17,566	\$ (12,839)	\$ (158,675)	\$ (1,032,298)	\$ 6,628	\$ 799,467

During the three months ended March 31, 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 March.

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 March 31,	
	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 15,514	\$ (4,167)
Items not affecting cash:		
Depreciation and amortization	40,775	38,075
Finance costs	17,533	16,584
Other expense (income)	(12,920)	1,371
Transaction costs arising from business acquisitions and dispositions	(827)	(1,600)
Interest income	(971)	(1,089)
Change in fair values of financial instruments and foreign exchange (gains) losses	(1,908)	4,501
Deferred income taxes benefit	(28)	–
Share of net income from joint ventures	(301)	(536)
Other	297	491
Change in trade and other receivables	(4,978)	7,660
Change in other assets	3,059	(942)
Change in accounts payable and other liabilities	(12,515)	(20,185)
	42,730	40,163
Interest income and other income received	1,034	1,181
Interest paid	(15,883)	(16,973)
	27,881	24,371
Financing activities:		
Costs of public offering	(271)	–
Proceeds from mortgage financing	10,999	56,571
Mortgage repayments	(18,337)	(14,589)
Scheduled mortgage principal repayments	(15,298)	(13,931)
Change to credit facilities	35,000	49,000
Additions to finance costs	(674)	(1,653)
Distributions paid	(24,858)	(21,714)
	(13,439)	53,684
Investing activities:		
Acquisition of assets under business combinations	–	(28,950)
Additions to PP&E and intangible assets	(47,067)	(28,641)
Proceeds from disposal of PP&E	33,873	40
Proceeds from capital funding receivable	1,465	1,386
Collection of loans receivable	–	1,457
Advances of loans receivable	(3,969)	–
Change in restricted cash	(1,117)	(48)
Contributions to joint ventures	(27,022)	(5,791)
	(43,837)	(60,547)
Increase (decrease) in cash	(29,395)	17,508
Cash and cash equivalents, beginning of period	44,751	30,050
Cash and cash equivalents, end of period	\$ 15,356	\$ 47,558

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 ended March 31, 2017 and 2016  
(Unaudited)

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

## 1. Basis of preparation:

Statement of compliance:

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

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on May 10, 2018.

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

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 1. Basis of preparation (continued):

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

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

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

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

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



# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

## 1. Basis of preparation (continued):

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

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

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

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

Impairment losses are recorded in the statement of comprehensive income (loss) with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 1. Basis of preparation (continued):

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

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

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

#### (i) Retirement community resident revenue:

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

#### Rental revenue:

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

#### Services revenue:

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 1. Basis of preparation (continued):

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

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

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

In Canada, the provinces or regional health authorities (collectively, the "funding agency") regulate the amounts charged to residents of long-term care communities, a substantial portion of which are funded by provincial or regional programs. Such revenue is recognized over time, typically on a monthly basis, which is when the services are provided to residents. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

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

### (iii) Fee revenue:

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 1. Basis of preparation (continued):

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

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

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

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

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

# 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 ended March 31, 2018 and 2017  
(Unaudited)

## 2. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
<b>Cost</b>						
Balance, December 31, 2016	\$ 285,060	\$ 2,577,238	\$ 98,647	\$ 62,079	\$ 23,057	\$ 3,046,081
Additions	26	61,588	12,202	93,386	30	167,232
Additions through business combinations	17,567	184,742	6,678	–	640	209,627
Disposals	(4,175)	(33,665)	(1,077)	–	–	(38,917)
Derecognition	–	(38,165)	(407)	(2,422)	–	(40,994)
Transfers	2,464	53,099	6,809	(61,595)	(1,000)	(223)
Transfers to assets held for sale	(1,190)	(9,362)	(867)	–	–	(11,419)
Balance, December 31, 2017	299,752	2,795,475	121,985	91,448	22,727	3,331,387
Additions	–	8,791	4,452	25,365	6,125	44,733
Disposals	(6,426)	(18,638)	(1,152)	–	–	(26,216)
Derecognition	–	(7,990)	(199)	–	–	(8,189)
Transfers	796	6,115	(4)	(6,964)	–	(57)
Balance, March 31, 2018	\$ 294,122	\$ 2,783,753	\$ 125,082	\$ 109,849	\$ 28,852	\$ 3,341,658
<b>Accumulated depreciation and impairment losses</b>						
Balance, December 31, 2016	\$ –	\$ 410,971	\$ 61,840	\$ 2,422	\$ –	\$ 475,233
Depreciation	–	136,905	14,660	–	–	151,565
Disposals	–	(16,872)	(951)	–	–	(17,823)
Derecognition	–	(38,165)	(407)	(2,422)	–	(40,994)
Transfer to assets held for sale	–	(846)	(358)	–	–	(1,204)
Balance, December 31, 2017	–	491,993	74,784	–	–	566,777
Depreciation	–	35,967	4,396	–	–	40,363
Disposals	–	(5,097)	(959)	–	–	(6,056)
Derecognition	–	(7,990)	(199)	–	–	(8,189)
Balance, March 31, 2018	\$ –	\$ 514,873	\$ 78,022	\$ –	\$ –	\$ 592,895
<b>Carrying amounts</b>						
Balance, December 31, 2017	\$ 299,752	\$ 2,303,482	\$ 47,201	\$ 91,448	\$ 22,727	\$ 2,764,610
Balance, March 31, 2018	294,122	2,268,880	47,060	109,849	28,852	2,748,763

# 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 ended March 31, 2018 and 2017  
(Unaudited)

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

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

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

On 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 Class B Units valued at \$500 (note 11) and cash.

During the three months ended March 31, 2018, Chartwell capitalized \$865 (March 31, 2017 - \$564) of borrowing costs related to development projects under construction at an average capitalization rate of 3.85% (March 31, 2017 - 3.89%).

As of March 31, 2018, the cost and accumulated depreciation of PP&E has been reduced by \$178,903 to remove fully amortized value of resident contracts.

## 3. Other assets:

	March 31, 2018	December 31, 2017
Prepaid expenses and deposits	\$ 17,323	\$ 17,785
Restricted cash	1,249	2,366
Other assets	7,473	7,572
	<u>\$ 26,045</u>	<u>\$ 27,723</u>
Current	\$ 23,424	\$ 24,860
Non-current	2,621	2,863
	<u>\$ 26,045</u>	<u>\$ 27,723</u>

Other assets include receivables of \$2,536 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties (December 31, 2017 - \$2,659). Income guarantees are considered Level 3 in the fair value hierarchy. During the three months ended March 31, 2018, \$230 (three months ended March 31, 2017 - \$294) 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 ended March 31, 2018 and 2017  
(Unaudited)

## 4. Loans receivable:

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

## 5. 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 March 31, 2018:

Joint arrangements	Number of properties	Location	Chartwell ownership	Consolidation type
Chartwell-Welltower Landlord <sup>(1)</sup>	37	Canada	50%	Joint operation
Chartwell-Welltower Operator <sup>(1)</sup>	37	Canada	50%	Joint venture <sup>(2)</sup>
Batimo	5	Canada	85%	Joint operation
Chartwell Oakville Retirement Residence	1	Canada	50%	Joint venture <sup>(2)</sup>
Chartwell Constantia Retirement Residence	1	Canada	50%	Joint venture <sup>(2)</sup>
Chartwell Riverside Retirement Residence	1	Canada	50%	Joint operation
Chartwell Churchill Retirement Residence	1	Canada	50%	Joint operation
Oak Ridges Retirement Residence <sup>(3)</sup>	1	Canada	(3)	Joint venture <sup>(2)</sup>
Clair Hills Retirement Residence <sup>(3)</sup>	1	Canada	(3)	Joint venture <sup>(2)</sup>
The Sumach by Chartwell	1	Canada	45%	Joint operation
Kingston Project	1	Canada	60%	Joint venture <sup>(2)</sup>

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

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

<sup>(3)</sup> Chartwell owns 100% of Class C units in these limited partnerships which were formed on acquisition of two properties in 2015. Affiliates of the vendors of the properties hold Class R units in the limited partnerships. In January 2019, Chartwell will be required to acquire all outstanding Class R Units. The purchase price will be equal to the excess of the actual combined net operating income achieved for the year ended December 31, 2018, over the guaranteed income for that year, divided by 6.25%.

# CHARTWELL 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 ended March 31, 2018 and 2017  
(Unaudited)

## 5. Joint arrangements (continued):

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

	Three months ended March 31,	
	2018	2017
Contributions to joint ventures	\$ 27,022	\$ 5,791
Distributions received from joint ventures	–	–

	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 7,108	\$ 7,608
Trade and other receivables	3,195	3,481
Other assets	5,449	5,144
Current assets	15,752	16,233
PP&E and intangible assets (net of accumulated depreciation and amortization of \$27,586 and \$26,123)	109,034	107,979
<b>Total assets</b>	<b>\$ 124,786</b>	<b>\$ 124,212</b>
Accounts payable and other liabilities	\$ 1,936	\$ 2,811
Mortgages payable - current	20,405	20,575
Current liabilities	22,341	23,386
Mortgages payable - non-current	37,558	63,262
<b>Total liabilities</b>	<b>\$ 59,899</b>	<b>\$ 86,648</b>
Net investment in joint ventures	\$ 64,887	\$ 37,564



# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

## 5. Joint arrangements (continued):

	Three months ended March 31,	
	2018	2017
Revenue	\$ 31,004	\$ 30,860
Direct property operating expense	(19,752)	(18,805)
Lease expense	(8,664)	(8,529)
Finance cost	(476)	(554)
Depreciation of PP&E	(1,712)	(2,056)
Change in fair value of financial instruments and foreign exchange gains (losses)	(49)	(379)
Other income (expense)	(50)	(1)
Chartwell's share of net income from joint ventures	\$ 301	\$ 536

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 March 31, 2018, \$356 (December 31, 2017 - \$719) of Chartwell's accounts receivable and \$7,252 (December 31, 2017 - \$7,360) of Chartwell's accounts payable relate to its investments in joint ventures. For the three months ended March 31, 2018, \$2,577 (three months ended March 31, 2017 - \$1,491) of Chartwell's management fees related to its investment in joint ventures.

Chartwell and Welltower (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 37 properties, which under IFRS 11, Joint Arrangements ("IFRS 11") are accounted for as joint operations. Chartwell's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Chartwell-Welltower operator"), which under IFRS 11 are accounted for as joint ventures using the equity method.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
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## 5. Joint arrangements (continued):

Chartwell-Welltower operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$8,664 for the three months ended March 31, 2018 (three months ended March 31, 2017 - \$8,529) is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower operator lease expense is included in the share of net income (loss) from joint ventures in the condensed consolidated interim statements of comprehensive loss.

## 6. 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 March 31, 2018 are as follows:

	Regular Principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2018	\$ 44,388	\$ 99,940	\$ 144,328	10
2019	58,429	116,007	174,436	11
2020	58,103	110,227	168,330	10
2021	56,026	105,277	161,303	10
2022	52,583	121,563	174,146	11
2023	48,329	60,419	108,748	7
2024	38,428	156,797	195,225	12
2025	31,549	44,335	75,884	5
2026	29,891	33,830	63,721	4
2027	26,888	63,176	90,064	5
2028	31,275	40,958	72,233	4
2029	22,261	–	22,261	1
2030	20,881	–	20,881	1
2031	19,434	–	19,434	1
2032	17,885	9,654	27,539	2
Thereafter	53,547	35,252	88,799	6
	<u>\$ 609,897</u>	<u>\$ 997,435</u>	1,607,332	
Mark-to-market adjustments on acquisition			15,125	
Financing costs			(30,998)	
			<u>\$ 1,591,459</u>	
Current			\$ 161,311	
Non-current			1,430,148	
			<u>\$ 1,591,459</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 ended March 31, 2018 and 2017  
(Unaudited)

## 6. Mortgages payable (continued):

	March 31, 2018	December 31, 2017
Mortgages at fixed rates:		
Mortgages (principal)	\$1,588,534	\$1,614,304
Interest rates	1.90% - 7.85%	1.90% - 7.85%
Weighted average interest rate	3.85%	3.86%
Mortgages at variable rates:		
Mortgages (principal)	\$18,798	\$15,631
Interest rates	Bankers' acceptance plus 1.50% to prime plus 2.00%	Bankers' acceptance plus 1.50% to prime plus 2.00%
Weighted average interest rate	3.57%	3.49%
Blended weighted average rate	3.84%	3.86%

Mortgages totalling \$135,219 (December 31, 2017 - \$135,448) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2018 and 2021. The swaps have a fair value asset value of \$2,368 (December 31, 2017 - \$2,457) included in trade and other receivables.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 7. Credit facilities:

### (a) Secured credit facility:

Chartwell has a \$300,000 secured revolving credit facility with a syndicate of Canadian financial institutions. The amounts outstanding on the secured credit facility bear interest 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 March 31, 2018, the maximum available borrowing capacity under the credit facility was \$294,855 based on the security provided. Of this capacity, \$5,449 has been allocated to support various letters of credit issued by Chartwell and \$35,000 was drawn.

On April 3, 2018, Chartwell extended the maturity to May 29, 2021 and amended the pricing to be based on Chartwell's credit rating. Based on the current credit rating, the amount outstanding on the secured credit facility bears interest at the bank's prime rate plus 0.65% or banker's acceptance rate plus 1.65%.

### (b) Unsecured credit facility:

Chartwell has a \$100,000 unsecured credit facility with a syndicate of Canadian banks. The amounts outstanding on the unsecured credit facility bear interest ranging from the bank's prime rate plus 0.80% to bank's prime rate plus 1.10% or banker's acceptance rate plus 1.80% to banker's acceptance rate plus 2.10% depending on Chartwell's leverage ratio as defined in the credit agreement. The unsecured credit facility is subject to various financial covenants including among others, minimum equity requirements, minimum unencumbered asset ratio, limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders and limitation on the amount of secured indebtedness. At March 31, 2018, the maximum available borrowing capacity under the unsecured credit facility was \$100,000. At March 31, 2018, no amounts were drawn on this line.

# 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 ended March 31, 2018 and 2017  
(Unaudited)

## 7. Credit facilities (continued):

On April 3, 2018, Chartwell extended the maturity to May 29, 2021, amended certain covenants, and amended the pricing to be based on Chartwell's credit rating. Based on the current credit rating, the amount outstanding on the unsecured credit facility bears interest at the bank's prime rate plus 0.70% or banker's acceptance rate plus 1.70%.

## 8. Senior unsecured debentures:

	March 31, 2018	December 31, 2017
Senior unsecured debentures outstanding	\$ 200,000	\$ 200,000
Financing costs, net	(1,377)	(1,407)
<b>Carrying value</b>	<b>\$ 198,623</b>	<b>\$ 198,593</b>

On June 9, 2017, Chartwell issued \$200,000 of 3.786% Series A senior unsecured debentures due on December 11, 2023, with semi-annual interest payments due on June 11 and December 11 of each year. Debt financing costs of \$1,538 were incurred and are being amortized using the effective interest method (note 16). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to October 11, 2023 as well as through certain other events which may trigger redemption. 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.

## 9. Accounts payable and other liabilities:

	Note	March 31, 2018	December 31, 2017
Accounts payable and accrued liabilities		\$ 94,870	\$ 106,382
Resident deposits		2,846	2,932
Deferred revenue		428	571
Deferred Trust Units ("DTU")	(a)	14,011	14,186
Restricted Trust Units ("RTU")	(b)	4,370	6,547
EUPP option component	(c)	13,098	13,363
		<b>\$ 129,623</b>	<b>\$ 143,981</b>

# 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 ended March 31, 2018 and 2017  
(Unaudited)

## 9. 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 March 31, 2018 was \$15.65 (December 31, 2017 - \$16.26).

	Units outstanding	Amount
Balance, December 31, 2016	928,618	\$ 13,620
Units granted	66,994	1,039
Change in fair value and distributions	31,727	1,939
DTU settled by the issuance of Trust Units	(154,740)	(2,412)
Balance, December 31, 2017	872,599	14,186
Units granted	14,705	230
Change in fair value and distributions	8,171	(405)
Balance, March 31, 2018	895,475	\$ 14,011

### (b) RTU:

During the three months ended March 31, 2018, 246,690 notional Trust Units were granted, 3,997 notional Trust units were cancelled, 5,534 notional Trust units were issued in regard to distributions, and 117,346 notional Trust units vested and were paid out. At March 31, 2018, 657,076 notional Trust Units remained outstanding (December 31, 2017 - 526,195).

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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

(c) EUPP option component:

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

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

	March 31, 2018	December 31, 2017
Expected volatility	13.74% - 18.74%	10.99% - 15.99%
Risk-free rate	2.41% - 2.59%	2.30% - 2.55%
Distribution yield	3.96% - 4.27%	3.73% - 3.97%

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

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

# 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 ended March 31, 2018 and 2017  
(Unaudited)

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## 10. Assets held for sale and related liabilities (continued):

The following table summarizes the significant assets held for sale and related liabilities on March 31, 2018:

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Assets:	
Cash and cash equivalents	\$ 2
Trade and other receivables	(36)
Other assets	33
PP&E, net	10,233
	<hr/>
	\$ 10,232
Liabilities:	
Accounts payable and other liabilities	\$ 623
Mortgages payable	6,030
	<hr/>
	\$ 6,653

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## 11. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability and are measured at fair value. Fair value is determined by using the market price for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy. The market price of Trust Units as at March 31, 2018 was \$15.65 per unit (December 31, 2017 - \$16.26 per unit). On March 1, 2017, Chartwell issued 31,565 Class B units for purchase of vacant land in Mississauga, Ontario (note 2). At March 31, 2018, 1,648,738 Class B Units were outstanding (December 31, 2017 – 1,648,738).



# 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. Trust Units and EUPP:

The following Trust Units are issued and outstanding:

	Number of voting Units	Amount
Balance, December 31, 2016	190,095,474	\$ 1,973,499
Trust Units issued under DRIP	1,348,980	20,115
Trust Units issued on vesting of DTU	154,740	2,412
Trust Units issued on exchange of Class B Units	10,000	157
Trust Units released on settlement of EUPP receivable	140,439	2,759
Trust Units issued pursuant to public offering	17,732,000	258,482
Balance, December 31, 2017	209,481,633	2,257,424
Trust Units issued under DRIP	355,843	5,322
Trust Units released on settlement of EUPP receivable	10,827	242
Issue costs pursuant to public offering	–	(271)
Balance, March 31, 2018	209,848,303	\$ 2,262,717

The following table summarizes Trust Units issued under the EUPP:

	Number of Trust Units issued under EUPP	Amount
Balance, December 31, 2016	1,515,388	\$ 16,588
Trust Units issued under EUPP	89,778	1,369
Trust Units surrendered for cancellation under EUPP	(12,638)	(133)
Trust Units released on settlement of EUPP receivable	(140,439)	(1,611)
Balance, December 31, 2017	1,452,089	16,213
Trust Units issued under EUPP	115,348	1,787
Trust Units surrendered for cancellation under EUPP	(284)	(3)
Trust Units released on settlement of EUPP receivable	(10,827)	(121)
Balance, March 31, 2018	1,556,326	\$ 17,876

# CHARTWELL RETIREMENT RESIDENCES

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

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## 13. Segmented information:

Chartwell monitors and operates its Retirement and Long-Term Care properties separately. The Retirement Operations segment includes 157 communities that Chartwell owns and operates in Canada. The retirement communities provide services to residents at rates set by Chartwell based on the services provided and market conditions. The Long-Term Care Operations segment represents the 24 long-term care communities in Ontario. Admission and funding for the long-term care communities is overseen by local government agencies in each province. Where a community provides more than one level of care, it has been designated to a segment according to the predominant level of care, type of licensing and funding and internal management responsibility.

The accounting policies of each of the segments are the same as those for Chartwell, except these segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column shows the adjustments to account for these joint ventures using the equity method, as applied in these consolidated financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses.

The measure of segment profit or loss is adjusted net operating income which is resident revenue less direct property operating expenses, including Chartwell's proportionate share of its joint ventures' revenue and direct property operating expenses, respectively.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

	Three months ended March 31, 2018							Total
	Retirement Operations	Long Term Care Operations	Segment Total	Other	Subtotal	Recon- ciliation		
Revenue:								
Resident Management and other fees	\$ 168,206	\$ 56,356	\$ 224,562	\$ –	\$ 224,562	\$ (30,957)	\$ 193,605	
Lease revenue from joint ventures	–	–	–	3,310	3,310	–	3,310	
Interest income	–	–	–	–	–	8,664	8,664	
	–	–	–	1,019	1,019	(48)	971	
	168,206	56,356	224,562	4,329	228,891	(22,341)	206,550	
Expenses:								
Direct property operating	104,843	50,256	155,099	–	155,099	(19,752)	135,347	
Adjusted net operating income <sup>(1)</sup>	<u>\$ 63,363</u>	<u>\$ 6,100</u>	<u>\$ 69,463</u>					
Depreciation of PP&E							40,363	
Amortization of intangible assets							412	
Share of net income from joint ventures							(301)	
General, administrative and trust							12,530	
Other expense							(12,920)	
Finance costs							17,533	
Change in fair values of financial instruments and foreign exchange losses							(1,908)	
							55,709	
Income before income taxes							15,494	
Income tax benefit (expense):								
Current							(8)	
Deferred							28	
							20	
Net income							\$ 15,514	
Expenditures for non-current assets:								
Acquisition of properties	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	
Capital additions	41,556	1,356	42,912	4,635	47,547	(2,814)	44,733	

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

	Three months ended March 31, 2017							Total
	Retirement Operations	Long Term Care Operations	Segment Total	Other	Subtotal	Reconciliation		
Revenue:								
Resident Management and other fees	\$ 156,628	\$ 54,485	\$ 211,113	\$ –	\$ 211,113	\$ (30,834)	\$ 180,279	
Lease revenue from joint ventures	–	–	–	2,279	2,279	–	2,279	
Interest income	–	–	–	–	–	8,529	8,529	
	–	–	–	1,115	1,115	(26)	1,089	
	156,628	54,485	211,113	3,394	214,507	(22,331)	192,176	
Expenses:								
Direct property operating	96,554	48,194	144,748	–	144,748	(18,805)	125,943	
Adjusted net operating income <sup>(1)</sup>	<u>\$ 60,074</u>	<u>\$ 6,291</u>	<u>\$ 66,365</u>					
Depreciation of PP&E							37,578	
Amortization of intangible assets							497	
Share of net income from joint ventures							(536)	
General, administrative and trust							10,405	
Other expense							1,371	
Finance costs							16,584	
Change in fair values of financial instruments and foreign exchange losses							4,501	
							70,400	
Loss before income taxes							(4,167)	
Income tax benefit (expense):								
Current							–	
Deferred							–	
							–	
Net loss							\$ (4,167)	
Expenditures for non-current assets:								
Acquisition of properties	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	\$ –	\$ 28,950	
Capital additions	27,435	928	28,363	8,276	36,639	(6,935)	29,704	

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

March 31, 2018	Retirement Operations	Long Term Care Operations	Segment Total	Other	Subtotal	Recon- ciliation	Total
Total assets	\$ 2,724,505	\$ 259,959	\$ 2,984,464	\$ 71,676	\$ 3,056,140	\$ (54,696)	\$ 3,001,444
Total liabilities	\$ 1,574,916	\$ 164,662	\$ 1,739,578	\$ 315,864	\$ 2,055,442	\$ (54,696)	\$ 2,000,746

## 14. Financial instruments:

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

	March 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable				
related to assets held for sale	6,030	6,030	6,061	6,061
Mortgages payable	1,591,459	1,624,513	1,614,332	1,680,549
Credit facilities	35,000	35,000	—	—
Senior unsecured debentures	198,623	193,374	198,593	201,478

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
(Unaudited)

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## 14. Financial instruments (continued):

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

The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At March 31, 2018, the mortgages payable were discounted using rates between 2.77% and 4.43% (December 31, 2017 - 2.68% and 4.46%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

The fair value of the loans receivable and Credit Facilities approximates its carrying value and is considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

## 15. Revenue:

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	Three months ended March 31, 2018
Lease revenue <sup>(1)</sup>	\$ 76,491
Services revenue <sup>(2)</sup>	129,088
Interest income	971
<b>Total revenue</b>	<b>\$ 206,550</b>

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<sup>(1)</sup> Includes resident lease revenue and lease revenue from joint ventures.

<sup>(2)</sup> Includes property services element in accordance with IFRS 15, Revenue from Contracts with customers, long term care services revenue and management fees.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months ended March 31, 2018 and 2017  
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## 16. Finance costs:

	Three months ended March 31,	
	2018	2017
Contractual interest expense on mortgages	\$ 15,493	\$ 15,764
Interest expense on senior unsecured debentures	1,867	-
Credit facility and other interest expense	445	1,347
	<u>17,805</u>	<u>17,111</u>
Interest capitalized to properties under development	(865)	(564)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	354	(206)
Distributions on Class B Units recorded as interest expense	239	243
<b>Total finance costs</b>	<b>\$ 17,533</b>	<b>\$ 16,584</b>

## 17. Other expense (income):

	Three months ended March 31,	
	2018	2017
Property lease expense	\$ 99	\$ 99
Transaction costs arising on acquisitions and dispositions	827	1,600
Other expense	926	1,699
Other income	(134)	(290)
Gain on disposal of assets	(13,712)	(38)
Other income	(13,846)	(328)
<b>Other expense (income)</b>	<b>\$ (12,920)</b>	<b>\$ 1,371</b>

On February 6, 2018, Chartwell sold three retirement residences in Quebec. The purchase price before working capital adjustments and closing costs was \$32,000 at Chartwell's ownership and was settled in cash. Chartwell recorded a gain on sale of these assets of \$11,841.

# 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 ended March 31, 2018 and 2017  
(Unaudited)

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

	Three months ended March 31,	
	2018	2017
Change in fair value of interest rate swaps	\$ 88	\$ 475
Foreign exchange (gains) losses	(108)	75
Change in fair value of EUPP option component	(371)	1,248
Change in fair value of Class B Units	(1,006)	1,555
Change in fair value of DTUs	(405)	1,028
Change in fair value of deferred purchase consideration	—	19
Change in fair value of net operating income guarantees	(106)	101
<b>Change in fair values of financial instruments and foreign exchange gains or losses</b>	<b>\$ (1,908)</b>	<b>\$ 4,501</b>

## 19. Subsequent events:

On April 23, 2018, Chartwell completed the previously announced acquisition of four retirement communities in the Greater Edmonton Area, Alberta. The purchase price before working capital adjustments and closing costs was \$297,400 and was settled through the assumption of mortgages of \$101,112 and cash.

On April 27, 2018, Chartwell issued \$150,000 of 4.211% Series B senior unsecured debentures due on April 28, 2025, with semi-annual interest payments due on April 28 and October 28 of each year commencing October 28, 2018. The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to February 25, 2025. Under the terms of the 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.

On April 30, 2018, Chartwell entered into a definitive agreement to acquire a retirement residence in Edmonton, Alberta. The purchase price is \$20,000 before working capital adjustments and closing costs. The transaction is expected to close in Q2 2018.