

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **CHARTWELL RETIREMENT RESIDENCES**

As at and for the three months and nine months ended  
September 30, 2018 and 2017  
(Unaudited)

# CHARTWELL RETIREMENT RESIDENCES

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

	Note	September 30, 2018	December 31, 2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 16,407	\$ 44,751
Trade and other receivables		19,338	11,840
Capital funding receivable		6,231	5,981
Other assets	4	17,296	24,860
Assets held for sale		–	10,113
<b>Total current assets</b>		<b>59,272</b>	<b>97,545</b>
Non-current assets:			
Other assets	4	2,515	2,863
Loans receivable	5	10,722	6,753
Capital funding receivable		43,826	48,530
Investment in joint ventures	6	39,478	37,564
Intangible assets		55,150	56,034
Property, plant and equipment ("PP&E")	3	3,096,230	2,764,610
<b>Total non-current assets</b>		<b>3,247,921</b>	<b>2,916,354</b>
<b>Total assets</b>		<b>\$ 3,307,193</b>	<b>\$ 3,013,899</b>
<b>Liabilities and Unitholders' Equity</b>			
Current liabilities:			
Accounts payable and other liabilities	10	\$ 164,508	\$ 143,981
Distributions payable		10,475	10,203
Mortgages payable	7	167,719	165,300
Deferred consideration on business combinations		–	1,760
Liabilities related to assets held for sale		–	6,641
<b>Total current liabilities</b>		<b>342,702</b>	<b>327,885</b>
Non-current liabilities:			
Mortgages payable	7	1,597,977	1,449,032
Credit facilities	8	27,055	–
Senior unsecured debentures	9	347,751	198,593
Class B Units of Chartwell Master Care LP ("Class B Units")	11	24,094	26,808
Deferred tax liabilities		1,333	1,414
<b>Total non-current liabilities</b>		<b>1,998,210</b>	<b>1,675,847</b>
<b>Total liabilities</b>		<b>2,340,912</b>	<b>2,003,732</b>
Unitholders' equity	12	966,281	1,010,167
<b>Total liabilities and unitholders' equity</b>		<b>\$ 3,307,193</b>	<b>\$ 3,013,899</b>

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Huw Thomas" \_\_\_\_\_ Trustee      "Lise Bastarache" \_\_\_\_\_ Trustee

# CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Revenue:					
Resident		\$ 206,446	\$ 193,029	\$ 601,726	\$ 555,013
Management and other fees		2,427	1,829	8,249	6,559
Lease revenue from joint ventures	6	9,861	8,736	27,972	25,964
Interest income		964	944	2,879	3,034
		219,698	204,538	640,826	590,570
Expenses (income):					
Direct property operating		138,877	130,774	410,125	383,410
Depreciation of PP&E	3	45,044	38,649	126,190	111,129
Amortization of intangible assets		218	440	1,041	1,376
Share of net income from joint ventures	6	(881)	(2,046)	(1,535)	(3,486)
General, administrative and trust		9,960	8,260	34,542	28,786
Finance costs	16	19,924	18,517	57,029	52,715
Other expense (income)	17	(232)	3,426	(13,464)	5,350
Change in fair values of financial instruments and foreign exchange losses (gains)	18	(2,338)	(3,690)	(4,682)	(954)
		210,572	194,330	609,246	578,326
Income before income taxes		9,126	10,208	31,580	12,244
Income tax benefit (expense):					
Current		(18)	(8)	(44)	(8)
Deferred		27	26	81	132
		9	18	37	124
Net income and comprehensive income		\$ 9,135	\$ 10,226	\$ 31,617	\$ 12,368

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)

Nine months ended September 30, 2018	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated income (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2017	\$ 2,257,424	\$ 16,213	\$ (11,362)	\$ (141,426)	\$ (1,117,176)	\$ 6,494	\$ 1,010,167
Net income	–	–	–	31,617	–	–	31,617
Distributions to unitholders	–	–	–	–	(92,814)	–	(92,814)
Issue costs related to Trust Units pursuant to public offering	(267)	–	–	–	–	–	(267)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	16,119	–	–	–	–	–	16,119
Trust Units issued on exchange of Class B Units	45	–	–	–	–	–	45
Trust units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	937	1,438	(1,541)	–	–	5	839
Interest on EUPP receivable	–	–	(90)	–	–	–	(90)
Distributions applied against EUPP receivable	–	–	665	–	–	–	665
<b>Unitholders' equity, September 30, 2018</b>	<b>\$ 2,274,258</b>	<b>\$ 17,651</b>	<b>\$ (12,328)</b>	<b>\$ (109,809)</b>	<b>\$ (1,209,990)</b>	<b>\$ 6,499</b>	<b>\$ 966,281</b>

During the nine months ended September 30, 2018, distributions were declared and paid at \$0.048 per unit per month for the months of January and February and \$0.049 per unit per month for the months of March to September. In October 2018, distributions were declared at \$0.049 per unit totalling \$10,401.

# CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (continued)

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

(Unaudited)

Nine months ended September 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	–	–	–	12,368	–	–	12,368
Distributions to unitholders	–	–	–	–	(82,548)	–	(82,548)
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	15,026	–	–	–	–	–	15,026
Trust Units issued on exchange of Class B Units	157	–	–	–	–	–	157
Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	2,478	(170)	(252)	–	–	37	2,093
Trust Units issued on settlement of Deferred Trust Units	2,412	–	–	–	–	–	2,412
Interest on EUPP receivable	–	–	(90)	–	–	–	(90)
Distributions applied against EUPP receivable	–	–	650	–	–	–	650
<b>Unitholders' equity, September 30, 2017</b>	<b>\$ 1,993,572</b>	<b>\$ 16,418</b>	<b>\$ (11,696)</b>	<b>\$ (142,140)</b>	<b>\$ (1,087,699)</b>	<b>\$ 6,596</b>	<b>\$ 775,051</b>

During the nine months ended September 30, 2017, distributions were declared and paid at \$0.046818 per unit per month for the months of January and February and \$0.048 per unit per month for the months of March to September. In October 2017, distributions were declared at \$0.0480 per unit totalling \$9,263.

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net income	\$ 9,135	\$ 10,226	\$ 31,617	\$ 12,368
Items not affecting cash:				
Depreciation and amortization	45,262	39,089	127,231	112,505
Finance costs	19,924	18,517	57,029	52,715
Other expense (income)	(232)	3,426	(13,464)	5,350
Transaction costs arising from business acquisitions and dispositions	(83)	(3,513)	(3,522)	(5,929)
Interest income	(964)	(944)	(2,879)	(3,034)
Change in fair values of financial instruments and foreign exchange losses (gains)	(2,338)	(3,690)	(4,682)	(954)
Share of net income from joint ventures	(881)	(2,046)	(1,535)	(3,486)
Deferred income tax benefit	(27)	(26)	(81)	(132)
Other	80	(373)	836	1,012
Change in trade and other receivables	(2,268)	4,408	(7,853)	11,327
Change in other assets	3,577	2,380	10,766	(862)
Change in accounts payable and other liabilities	12,032	10,171	8,444	(1,728)
	83,217	77,625	201,907	179,152
Interest income and other income received	1,073	1,212	3,212	3,659
Interest paid	(17,419)	(17,158)	(53,951)	(51,675)
	66,871	61,679	151,168	131,136
Financing activities:				
Costs of public offering	–	–	(267)	–
Proceeds from mortgage financing	103,509	43,005	168,759	160,727
Scheduled mortgage principal repayments	(16,147)	(14,693)	(46,969)	(43,020)
Mortgage repayments	(27,218)	(51,047)	(70,226)	(107,270)
Proceeds from issuance of senior unsecured debentures	–	–	150,000	200,000
Changes to credit facilities	(55,500)	18,000	27,055	(28,000)
Additions to finance costs	(4,082)	(2,320)	(8,437)	(9,327)
Distributions paid	(25,436)	(22,328)	(75,848)	(66,672)
	(24,874)	(29,383)	144,067	106,438
Investing activities:				
Acquisition of assets under business combinations	–	(138,608)	(216,724)	(167,558)
Additions to PP&E and intangible assets	(62,488)	(35,557)	(154,175)	(108,999)
Proceeds from disposal of PP&E	311	92	48,487	21,167
Proceeds from capital funding receivable	1,505	1,425	4,454	4,218
Collection of loans receivable	–	30	–	1,487
Advances of loans receivable	–	–	–	–
Mezzanine loan advances	–	(3,569)	(3,969)	(3,569)
Change in restricted cash	(206)	115,295	(1,273)	143
Contributions to joint ventures	–	–	(27,022)	(7,832)
Distributions received from joint ventures	26,643	1,858	26,643	5,806
	(34,235)	(59,034)	(323,579)	(255,137)
Increase (decrease) in cash and cash equivalents	7,762	(26,738)	(28,344)	(17,563)
Cash and cash equivalents, beginning of period	8,645	39,225	44,751	30,050
Cash and cash equivalents, end of period	\$ 16,407	\$ 12,487	\$ 16,407	\$ 12,487

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 nine months ended September 30, 2018 and 2017  
(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 November 8, 2018.

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

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 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 and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 1. Basis of preparation (continued):

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

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

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

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 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. These services consist primarily of the provision of meals, nursing services, housekeeping and laundry services, programs, amenities and the recovery of utilities and property maintenance costs and are recognized over time, typically on a monthly basis, which is when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 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. These services consist primarily of the provision of meals, nursing services, housekeeping and laundry services, programs, amenities and the recovery of utilities and property maintenance costs.

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

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

### (iii) Fee revenue:

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 1. Basis of preparation (continued):

(iv) Lease revenue from joint ventures:

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

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

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

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

## 2. Acquisitions:

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

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## 2. Acquisitions (continued):

On April 23, 2018, Chartwell acquired a 100% interest in a portfolio of four properties in Alberta totaling 775 suites. The purchase price before working capital adjustments and closing costs was \$297,400 and was settled through the assumption of mortgages and cash. The vendor has provided Chartwell with an income support guarantee of up to \$1,624 on one property if operating results fall below certain threshold amounts (note 4). The properties have contributed revenue of \$14,947 and net loss of \$2,224 since acquisition. Chartwell incurred acquisition-related costs of \$2,563, which have been expensed in the condensed consolidated interim statements of comprehensive income. Chartwell entered into a forward purchase agreement to acquire an additional 256-suite residence upon completion of its development expected in Q4 2019 for a contractual purchase price of \$120,000.

On June 1, 2018, Chartwell acquired a 100% interest in a 104-suite retirement residence located in Edmonton, Alberta. The purchase price before working capital adjustments and closing costs was \$20,000 and was settled in cash. The property has contributed revenue of \$1,042 and net income of \$76 since acquisition. Chartwell incurred acquisition-related costs of \$152, which have been expensed in the condensed consolidated interim statements of comprehensive income.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 3. 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	—	47,304	10,397	99,754	6,125	163,580
Additions through business combinations	16,268	293,160	6,348	—	—	315,776
Disposals	(6,434)	(19,980)	(1,256)	—	—	(27,670)
Derecognition	—	(40,338)	(584)	—	—	(40,922)
Transfers	804	23,516	458	(16,091)	(8,825)	(138)
Balance, September 30, 2018	\$ 310,390	\$ 3,099,137	\$ 137,348	\$ 175,111	\$ 20,027	\$ 3,742,013
<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	—	112,213	13,977	—	—	126,190
Disposals	—	(5,227)	(1,035)	—	—	(6,262)
Derecognition	—	(40,338)	(584)	—	—	(40,922)
Balance, September 30, 2018	\$ —	\$ 558,641	\$ 87,142	\$ —	\$ —	\$ 645,783
<b>Carrying amounts</b>						
Balance, December 31, 2017	\$ 299,752	\$ 2,303,482	\$ 47,201	\$ 91,448	\$ 22,727	\$ 2,764,610
Balance, September 30, 2018	310,390	2,540,496	50,206	175,111	20,027	3,096,230

# 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 nine months ended September 30, 2018 and 2017  
(Unaudited)

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

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

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

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

On May 11, 2018, Chartwell disposed of a property in Quebec, with a net book value of \$10,805; which was classified as held for sale at December 31, 2017.

On September 26, 2018, Chartwell acquired 90% interest in vacant land in Pickering, Ontario for \$5,508.

On September 27, 2018, Chartwell acquired vacant land in Calgary, Alberta for \$5,750.

During the nine months ended September 30, 2018, Chartwell capitalized \$3,420 (September 30, 2017 - \$1,966) of borrowing costs related to development projects under construction at an average capitalization rate of 3.87% (September 30, 2017 - 3.69%).

As of September 30, 2018, the cost and accumulated depreciation of PP&E has been reduced by \$194,773 to remove the fully amortized value of resident contracts.

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 4. Other assets:

	September 30, 2018	December 31, 2017
Prepaid expenses and deposits	\$ 11,290	\$ 17,785
Restricted cash	1,093	2,366
Other assets	7,428	7,572
	<u>\$ 19,811</u>	<u>\$ 27,723</u>
Current	\$ 17,296	\$ 24,860
Non-current	2,515	2,863
	<u>\$ 19,811</u>	<u>\$ 27,723</u>

Other assets include receivables of \$2,508 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 nine months ended September 30, 2018, \$1,712 (September 30, 2017 - \$1,052) of income guarantees was collected. During the nine months ended September 30, 2018, Chartwell recorded income guarantee of \$1,624 related to the acquisition of a property in Alberta (note 2).

## 5. Loans receivable:

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



# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

## 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 September 30, 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	4	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 <sup>(4)</sup>	1	Canada	45%	Joint operation
Kingsbridge Retirement Community <sup>(4)</sup>	1	Canada	60%	Joint venture <sup>(2)</sup>
Pickering Project <sup>(4)</sup>	1	Canada	90%	Joint operation

<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%.

<sup>(4)</sup>Properties under development

# CHARTWELL RETIREMENT RESIDENCES

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

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## 6. Joint arrangements (continued):

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

	Nine months ended September 30,	
	2018	2017
Contributions to joint ventures	\$ 27,022	\$ 7,832
Distributions received from joint ventures	26,643	5,806

In 2018, contributions and distributions were contributed to and received from one joint venture relating to mortgage financing.

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 8,511	\$ 7,608
Trade and other receivables	7,781	3,481
Other assets	6,967	5,144
Current assets	23,259	16,233
PP&E and intangible assets (net of accumulated depreciation and amortization of \$30,821 and \$26,123) <sup>(1)</sup>	110,694	107,979
<b>Total assets</b>	<b>\$ 133,953</b>	<b>\$ 124,212</b>
Accounts payable and other liabilities	\$ 2,429	\$ 2,811
Mortgages payable - current	12,160	20,575
Current liabilities	14,589	23,386
Mortgages payable - non-current	79,886	63,262
<b>Total liabilities</b>	<b>\$ 94,475</b>	<b>\$ 86,648</b>
<b>Net investment in joint ventures</b>	<b>\$ 39,478</b>	<b>\$ 37,564</b>

<sup>(1)</sup>Includes \$18,468 related to one jointly owned project under development.

# 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 nine months ended September 30, 2018 and 2017  
(Unaudited)

## 6. Joint arrangements (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 31,489	\$ 31,372	\$ 93,388	\$ 93,036
Direct property operating expense	(18,608)	(18,249)	(57,137)	(56,027)
Lease expense	(9,861)	(8,736)	(27,972)	(25,964)
Finance costs	(454)	(586)	(1,331)	(1,693)
Depreciation of PP&E	(1,751)	(1,810)	(5,192)	(5,754)
Change in fair value of financial instruments and foreign exchange gains (losses)	68	102	(191)	(119)
Other income (expense)	(2)	(47)	(30)	7
Chartwell's share of net income from joint ventures	\$ 881	\$ 2,046	\$ 1,535	\$ 3,486

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable, and in management and other fees revenue, as applicable. As of September 30, 2018, \$700 (December 31, 2017 - \$719) of Chartwell's accounts receivable and \$10,444 (December 31, 2017 - \$7,360) of Chartwell's accounts payable relate to its investments in joint ventures. For the three and nine months ended September 30, 2018, \$1,612 and \$5,836, respectively (three and nine months ended September 30, 2017 - \$1,547 and \$4,776, respectively) of Chartwell's management fees related to its investment in joint ventures.

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

# CHARTWELL RETIREMENT RESIDENCES

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

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

Chartwell-Welltower Operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$9,861 and \$27,972 for the three and nine months ended September 30, 2018, respectively (three and nine months ended September 30, 2017 - \$8,736 and \$25,964, respectively) is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower Operator lease expense is included in the share of net income from joint ventures in the condensed consolidated interim statements of comprehensive income.

## 7. Mortgages payable:

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

	Amortizing principal payments	Principal due on maturity	Total debt	% of total debt
Remainder 2018	\$ 16,132	\$ 54,032	\$ 70,164	4
2019	64,140	115,565	179,705	10
2020	64,012	118,173	182,185	10
2021	62,037	164,205	226,242	13
2022	57,928	180,282	238,210	13
2023	52,117	60,419	112,536	6
2024	42,332	146,289	188,621	11
2025	35,713	54,705	90,418	5
2026	34,041	33,830	67,871	4
2027	31,166	63,176	94,342	5
2028	33,678	125,353	159,031	9
2029	22,261	–	22,261	1
2030	20,884	–	20,884	1
2031	19,434	–	19,434	1
2032	17,885	9,654	27,539	2
Thereafter	53,548	35,250	88,798	5
	<u>\$ 627,308</u>	<u>\$ 1,160,933</u>	1,788,241	<u>100</u>
Mark-to-market adjustments on acquisition			13,343	
Financing costs			(35,888)	
			<u>\$ 1,765,696</u>	
Current			\$ 167,719	
Non-current			1,597,977	
			<u>\$ 1,765,696</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 nine months ended September 30, 2018 and 2017  
(Unaudited)

## 7. Mortgages payable (continued):

	September 30, 2018	December 31, 2017
Mortgages at fixed rates:		
Mortgages (principal)	\$1,692,076	\$1,614,304
Interest rates	1.90% - 7.85%	1.90% - 7.85%
Weighted average interest rate	3.80%	3.86%
Mortgages at variable rates:		
Mortgages (principal)	\$96,165	\$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	4.13%	3.49%
Blended weighted average rate	3.82%	3.86%

Mortgages totalling \$107,503 (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 \$2,148 (December 31, 2017 - \$2,457) included in trade and other receivables.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

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## 8. Credit facilities:

### (a) Secured credit facility:

Chartwell has a \$300,000 secured revolving credit facility with a syndicate of Canadian financial institutions. The amounts outstanding on the secured credit facility bear interest at the bank's prime rate plus 0.65% or banker's acceptance rate plus 1.65% based on Chartwell's current credit rating. The secured credit facility is secured by second-ranked charges on specific properties. The secured credit facility is subject to various financial covenants including among others, minimum equity requirements and limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders. The credit facility matures on May 29, 2021. At September 30, 2018, the maximum available borrowing capacity under the credit facility was \$289,532 based on the security provided. Of this capacity, \$6,023 has been allocated to support various letters of credit issued by Chartwell and \$27,055 was drawn.

### (b) Unsecured credit facility:

Chartwell has a \$100,000 unsecured credit facility with a syndicate of Canadian banks. The amounts outstanding on the unsecured credit facility bear interest at the bank's prime rate plus 0.70% or banker's acceptance rate plus 1.70% based on Chartwell's current credit rating. The unsecured credit facility is subject to various financial covenants including among others, minimum equity requirements, minimum unencumbered asset ratio, limitations on entering into certain investments and on the amount of cash distributions that can be paid to unitholders and limitation on the amount of secured indebtedness. At September 30, 2018, the maximum available borrowing capacity under the unsecured credit facility was \$100,000. At September 30, 2018, nil amounts were drawn on this line. The unsecured credit facility matures on May 29, 2021.

# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

## 9. Senior unsecured debentures:

	September 30, 2018	December 31, 2017
Senior unsecured debentures outstanding	\$ 350,000	\$ 200,000
Financing costs, net	(2,249)	(1,407)
<b>Carrying value</b>	<b>\$ 347,751</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 \$1,571 were incurred and are being amortized using the effective interest method (note 16). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to October 11, 2023 as well as through certain other events which may trigger redemption.

On April 27, 2018, Chartwell issued \$150,000 of 4.211% Series B senior unsecured debentures due on April 28, 2025, with semi-annual interest payments due on April 28 and October 28 of each year commencing October 28, 2018. Debt financing costs of \$1,074 were incurred and are being amortized using the effective interest method (note 16). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to February 25, 2025.

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 10. Accounts payable and other liabilities:

	Note	September 30, 2018	December 31, 2017
Accounts payable and accrued liabilities		\$ 127,594	\$ 106,382
Resident deposits		4,095	2,932
Deferred revenue		1,166	571
Deferred Trust Units ("DTU")	(a)	13,865	14,186
Restricted Trust Units ("RTU")	(b)	5,897	6,547
EUPP option component	(c)	11,891	13,363
		\$ 164,508	\$ 143,981

### (a) DTU:

The DTU fair value is determined using the market price for listed Trust Units since there is a one-for-one conversion feature. The market price of Trust Units as at September 30, 2018 was \$14.64 (December 31, 2017 - \$16.26).

	Units outstanding	Amount
Balance, December 31, 2016	928,618	\$ 13,620
Units issued	66,994	1,039
Change in fair value and distributions	31,727	1,939
DTU settled by the issuance of Trust Units	(154,740)	(2,412)
Balance, December 31, 2017	872,599	14,186
Units issued	48,735	742
Change in fair value and distributions	25,927	(1,063)
Balance, September 30, 2018	947,261	\$ 13,865

### (b) RTU:

During the nine months ended September 30, 2018, 247,225 notional Trust Units were granted, 13,358 notional Trust Units were cancelled, 18,371 notional Trust Units were issued in regard to distributions, and 118,623 notional Trust Units vested and were paid out. At September 30, 2018, 659,810 notional Trust Units remained outstanding (December 31, 2017 - 526,195).

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



# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

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

(c) EUPP option component:

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

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

	September 30, 2018	December 31, 2017
Expected volatility	14.52% - 19.52%	10.99% - 15.99%
Risk-free rate	2.72% - 2.88%	2.30% - 2.55%
Distribution yield	4.21% - 4.53%	3.73% - 3.97%

## 11. Class B Units:

Class B Units are exchangeable, at the option of the holder, into Trust Units. Such exchangeable instruments are presented as a liability and are measured at fair value. Fair value is determined by using the market price for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy. The market price of Trust Units as at September 30, 2018 was \$14.64 per unit (December 31, 2017 - \$16.26 per unit). At September 30, 2018, 1,645,738 Class B Units were outstanding (December 31, 2017 - 1,648,738).

# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

## 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	1,093,092	16,119
Trust Units issued on exchange of Class B Units	3,000	45
Trust Units released on settlement of EUPP receivable	32,670	937
Issue costs pursuant to public offering	—	(267)
<b>Balance, September 30, 2018</b>	<b>210,610,395</b>	<b>\$ 2,274,258</b>

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	(1,161)	(12)
Trust Units released on settlement of EUPP receivable	(32,670)	(337)
<b>Balance, September 30, 2018</b>	<b>1,533,606</b>	<b>\$ 17,651</b>

# CHARTWELL RETIREMENT RESIDENCES

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

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(Unaudited)

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## 13. Segmented information:

Chartwell monitors and operates its Retirement and Long-Term Care properties separately. The Retirement Operations segment includes 162 communities that Chartwell owns and operates in Canada. The retirement communities provide services to residents at rates generally set by Chartwell based on the services provided and market conditions. The Long-Term Care Operations segment represents the 24 long-term care communities in Ontario. Admission and funding for the long-term care communities is overseen by local government agencies in each province. Where a community provides more than one level of care, it has been designated to a segment according to the predominant level of care, type of licensing and funding and internal management responsibility.

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

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

	Three months ended September 30, 2018						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 179,790	\$ 58,036	\$ 237,826	\$ –	\$ 237,826	\$ (31,380)	\$ 206,446
Management and other fees	–	–	–	2,427	2,427	–	2,427
Lease revenue from joint ventures	–	–	–	–	–	9,861	9,861
Interest income	–	–	–	1,073	1,073	(109)	964
	179,790	58,036	237,826	3,500	241,326	(21,628)	219,698
Expenses:							
Direct property operating	107,444	50,041	157,485	–	157,485	(18,608)	138,877
Adjusted net operating income <sup>(1)</sup>	<u>\$ 72,346</u>	<u>\$ 7,995</u>	<u>\$ 80,341</u>				
Depreciation of PP&E							45,044
Amortization of intangible assets							218
Share of net income from joint ventures							(881)
General, administrative and trust							9,960
Other income							(232)
Finance costs							19,924
Change in fair values of financial instruments and foreign exchange losses							(2,338)
							71,695
Income before income taxes							9,126
Income tax benefit (expense):							
Current							(18)
Deferred							27
							9
<b>Net income</b>							<b>\$ 9,135</b>
Expenditures for non-current assets:							
Acquisition of properties	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Capital additions	54,215	3,203	57,418	7,267	64,685	(2,903)	61,782

<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 and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

	Three months ended September 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 166,872	\$ 57,450	\$ 224,322	\$ –	\$ 224,322	\$ (31,293)	\$ 193,029
Management and other fees	–	–	–	1,829	1,829	–	1,829
Lease revenue from joint ventures	–	–	–	–	–	8,736	8,736
Interest income	–	–	–	973	973	(29)	944
	166,872	57,450	224,322	2,802	227,124	(22,586)	204,538
Expenses (income):							
Direct property operating	99,193	49,830	149,023	–	149,023	(18,249)	130,774
Adjusted net operating income <sup>(1)</sup>	<u>\$ 67,679</u>	<u>\$ 7,620</u>	<u>\$ 75,299</u>				
Depreciation of PP&E							38,649
Amortization of intangible assets							440
Share of net income from joint ventures							(2,046)
General, administrative and trust							8,260
Other expense							3,426
Finance costs							18,517
Change in fair values of financial instruments and foreign exchange gains							(3,690)
							63,556
Income before income taxes							10,208
Income tax benefit (expense):							
Current							(8)
Deferred							26
							18
Net income							\$ 10,226
Expenditures for non-current assets:							
Acquisition of properties	\$ 180,677	\$ –	\$ 180,677	\$ –	\$ 180,677	\$ –	\$ 180,677
Capital additions	49,470	3,342	52,812	2,814	55,626	(2,610)	53,016

<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 and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

Nine months ended September 30, 2018							
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Continuing Operations							
Revenue:							
Resident	\$ 522,765	\$ 172,097	\$ 694,862	\$ –	\$ 694,862	\$ (93,136)	\$ 601,726
Management and other fees	–	–	–	8,249	8,249	–	8,249
Lease revenue from joint ventures	–	–	–	–	–	27,972	27,972
Interest income	–	–	–	3,131	3,131	(252)	2,879
	522,765	172,097	694,862	11,380	706,242	(65,416)	640,826
Expenses:							
Direct property operating	317,752	149,510	467,262	–	467,262	(57,137)	410,125
Adjusted net operating income <sup>(1)</sup>	<u>\$ 205,013</u>	<u>\$ 22,587</u>	<u>\$ 227,600</u>				
Depreciation of PP&E							126,190
Amortization of intangible assets							1,041
Share of net income from joint ventures							(1,535)
General, administrative and trust							34,542
Other income							(13,464)
Finance costs							57,029
Change in fair values of financial instruments and foreign exchange losses							(4,682)
							199,121
Income before income taxes							31,580
Income tax benefit (expense):							
Current							(44)
Deferred							81
							37
<b>Net income</b>							<b>\$ 31,617</b>
Expenditures for non-current assets:							
Acquisition of properties	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776	\$ –	\$ 315,776
Capital additions	141,995	7,937	149,932	21,499	171,431	(7,851)	163,580

<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 and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

	Nine months ended September 30, 2017						
	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Revenue:							
Resident	\$ 480,241	\$ 167,729	\$ 647,970	\$ –	\$ 647,970	\$ (92,957)	\$ 555,013
Management and other fees	–	–	–	6,559	6,559	–	6,559
Lease revenue from joint ventures	–	–	–	–	–	25,964	25,964
Interest income	–	–	–	3,113	3,113	(79)	3,034
	480,241	167,729	647,970	9,672	657,642	(67,072)	590,570
Expenses (income):							
Direct property operating	292,530	146,907	439,437	–	439,437	(56,027)	383,410
Adjusted net operating income <sup>(1)</sup>	<u>\$ 187,711</u>	<u>\$ 20,822</u>	<u>\$ 208,533</u>				
Depreciation of PP&E							111,129
Amortization of intangible assets							1,376
Share of net income from joint ventures							(3,486)
General, administrative and trust							28,786
Other expense							5,350
Finance costs							52,715
Change in fair values of financial instruments and foreign exchange gains							(954)
							194,916
Income before taxes							12,244
Income tax benefit (expense):							
Current							(8)
Deferred							132
							124
Net income							\$ 12,368
Expenditures for non-current assets:							
Acquisition of properties	\$ 209,627	\$ –	\$ 209,627	\$ –	\$ 209,627	\$ –	\$ 209,627
Capital additions	112,200	5,575	117,775	12,853	130,628	(12,274)	118,354

<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 and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 13. Segmented information (continued):

September 30, 2018	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,991,401	\$ 313,886	\$ 3,305,287	\$ 84,846	\$ 3,390,133	\$ (82,940)	\$ 3,307,193
Total liabilities	\$ 1,795,467	\$ 163,887	\$ 1,959,354	\$ 464,498	\$ 2,423,852	\$ (82,940)	\$ 2,340,912

December 31, 2017	Canadian Retirement Operations	Canadian Long-Term Care Operations	Segment total	Other	Subtotal	Reconciliation	Total
Total assets	\$ 2,737,248	\$ 262,826	\$ 3,000,074	\$ 95,285	\$ 3,095,359	\$ (81,460)	\$ 3,013,899
Total liabilities	\$ 1,630,850	\$ 167,896	\$ 1,798,746	\$ 286,446	\$ 2,085,192	\$ (81,460)	\$ 2,003,732

## 14. Financial instruments:

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

	September 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgages payable	\$ 1,765,696	\$ 1,803,029	\$ 1,614,332	\$ 1,680,549
Credit facilities	27,055	27,055	—	—
Senior unsecured debentures	347,751	340,109	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, restricted cash, accounts payable and other liabilities, and distributions payable as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value.



# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 14. Financial instruments (continued):

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

The fair value of mortgages payable is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At September 30, 2018, the mortgages payable were discounted using rates between 3.21% and 4.61% (December 31, 2017 - 2.68% and 4.46%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of mortgages is Level 2 in the fair value hierarchy.

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

The fair value of senior unsecured debentures is estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At September 30, 2018, senior unsecured debentures were discounted using a rate of 4.56% (December 31, 2017 - 3.65%). As inputs are observable for the liability, either directly or indirectly through prevailing rates of similar items, the fair value of senior unsecured debentures is Level 2 in the fair value hierarchy.

## 15. Revenue:

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Lease revenue <sup>(1)</sup>	\$ 82,947	\$ 239,752
Services revenue <sup>(2)</sup>	135,787	398,195
Interest income	964	2,879
<b>Total revenue</b>	<b>\$ 219,698</b>	<b>\$ 640,826</b>

<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, long-term care services revenue and management fees.

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 16. Finance costs:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Contractual interest expense on mortgages	\$ 16,447	\$ 15,790	\$ 48,281	\$ 47,299
Interest expense on senior unsecured debentures	3,500	1,909	8,380	2,365
Credit facility and other interest expense	957	1,155	2,407	3,802
	20,904	18,854	59,068	53,466
Interest capitalized to properties under development	(1,424)	(701)	(3,420)	(1,966)
Amortization of financing costs and mark-to-market adjustment on assumption of mortgages payable	202	126	658	496
Distributions on Class B Units recorded as interest expense	242	238	723	719
<b>Total finance costs</b>	<b>\$ 19,924</b>	<b>\$ 18,517</b>	<b>\$ 57,029</b>	<b>\$ 52,715</b>

## 17. Other expense (income):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Property lease expense	\$ 100	\$ 100	\$ 297	\$ 297
Transaction costs arising on business acquisitions and dispositions	83	3,513	3,522	5,929
Other expense	183	3,613	3,819	6,226
Other income	(152)	(254)	(420)	(807)
Loss (gain) on disposal of assets	(263)	67	(16,863)	(69)
Other income	(415)	(187)	(17,283)	(876)
<b>Other expense (income)</b>	<b>\$ (232)</b>	<b>\$ 3,426</b>	<b>\$ (13,464)</b>	<b>\$ 5,350</b>

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

# CHARTWELL RETIREMENT RESIDENCES

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

As at and for the three months and nine months ended September 30, 2018 and 2017  
(Unaudited)

## 17. Other expense (income) (continued):

On February 6, 2018, Chartwell sold three retirement residences in Quebec. The sale price before working capital adjustments and closing costs was \$32,000 at Chartwell's ownership and was settled in cash. Chartwell recorded a gain on sale of these assets of \$11,641.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Change in fair value of interest rate swaps	\$ (42)	\$ (1,789)	\$ 309	\$ (2,907)
Foreign exchange losses (gains)	85	148	(122)	311
Change in fair value of EUPP option component	(776)	(565)	(1,285)	700
Change in fair value of Class B Units	(1,135)	(941)	(2,670)	435
Change in fair value of DTU	(509)	(348)	(1,063)	697
Change in fair value of deferred purchase consideration	29	38	85	85
Change in fair value of net operating income guarantees	10	(233)	64	(275)
<b>Change in fair values of financial instruments and foreign exchange losses (gains)</b>	<b>\$ (2,338)</b>	<b>\$ (3,690)</b>	<b>\$ (4,682)</b>	<b>\$ (954)</b>