

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Financial Statements (Unaudited)
(In Canadian dollars)
Three and nine months ended September 30, 2019

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Balance Sheets (Unaudited)

(In thousands of Canadian dollars)

| | Note | September 30, 2019 | December 31, 2018 |
|--|------|-----------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 17,242 | \$ 29,779 |
| Trade and other receivables | | 26,480 | 13,092 |
| Capital funding receivable | | 6,582 | 6,317 |
| Other assets | 8 | 18,126 | 16,006 |
| Loans receivable | 6 | 494 | 494 |
| Assets held for sale | 14 | 10,433 | - |
| Total current assets | | 79,357 | 65,688 |
| Non-current assets: | | | |
| Other assets | 8 | 2,337 | 2,417 |
| Loans receivable | 6 | 18,237 | 14,411 |
| Capital funding receivable | | 37,245 | 42,214 |
| Investment in joint ventures | 9 | 21,674 | 34,865 |
| Intangible assets | 5 | 72,060 | 65,507 |
| Property, plant and equipment ("PP&E") | 4 | 3,173,813 | 3,093,746 |
| Total non-current assets | | 3,325,366 | 3,253,160 |
| Total assets | | \$ 3,404,723 | \$ 3,318,848 |
| Liabilities and Unitholders' Equity | | | |
| Current liabilities: | | | |
| Lease obligations | 7 | \$ 1,001 | \$ - |
| Accounts payable and other liabilities | 13 | 160,114 | 177,752 |
| Distributions payable | | 10,781 | 10,493 |
| Mortgages payable | 10 | 262,914 | 183,649 |
| Liabilities related to assets held for sale | 14 | 2,540 | - |
| Total current liabilities | | 437,350 | 371,894 |
| Non-current liabilities: | | | |
| Lease obligations | 7 | 11,556 | - |
| Mortgages payable | 10 | 1,651,176 | 1,628,685 |
| Credit facilities | 11 | 26,000 | - |
| Senior unsecured debentures | 12 | 348,198 | 347,883 |
| Class B Units of Chartwell Master Care LP ("Class B Units") | 15 | 23,520 | 22,456 |
| Deferred tax liabilities | 23 | 33,508 | 14,410 |
| Total non-current liabilities | | 2,093,958 | 2,013,434 |
| Total liabilities | | 2,531,308 | 2,385,328 |
| Unitholders' equity | 16 | 873,415 | 933,520 |
| Total liabilities and unitholders' equity | | \$ 3,404,723 | \$ 3,318,848 |

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Trustees:

"Ann Davis" _____ Trustee "Huw Thomas" _____ Trustee

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands of Canadian dollars)

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|-------------------------------------|------------------|------------------------------------|------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenue: | | | | | |
| Resident | | \$ 215,802 | \$ 206,446 | \$ 639,534 | \$ 601,726 |
| Management and other fees | | 2,665 | 2,427 | 7,766 | 8,249 |
| Lease revenue from joint ventures | 9 | 9,861 | 9,861 | 29,583 | 27,972 |
| Interest income | | 1,282 | 964 | 3,514 | 2,879 |
| | | <u>229,610</u> | <u>219,698</u> | <u>680,397</u> | <u>640,826</u> |
| Income (expenses): | | | | | |
| Direct property operating | | (146,460) | (138,877) | (437,179) | (410,125) |
| Depreciation of PP&E | 4 | (41,579) | (45,044) | (132,161) | (126,190) |
| Amortization of intangible assets | 5 | (448) | (218) | (1,399) | (1,041) |
| Share of net income from joint ventures | 9 | 1,797 | 881 | 2,498 | 1,535 |
| General, administrative and trust | | (9,194) | (9,960) | (34,402) | (34,542) |
| Other income (expense) | 20 | (17,046) | 232 | 24,002 | 13,464 |
| Finance costs | 21 | (21,633) | (19,924) | (63,756) | (57,029) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | 22 | 2,774 | 2,338 | (6,350) | 4,682 |
| | | <u>(231,789)</u> | <u>(210,572)</u> | <u>(648,747)</u> | <u>(609,246)</u> |
| Income (loss) before income taxes | | (2,179) | 9,126 | 31,650 | 31,580 |
| Income tax benefit (expense): | | | | | |
| Current | | - | (18) | - | (44) |
| Deferred | 23 | 1,363 | 27 | (19,098) | 81 |
| | | <u>\$ 1,363</u> | <u>\$ 9</u> | <u>\$ (19,098)</u> | <u>\$ 37</u> |
| Net income (loss) and comprehensive income (loss) | | <u>\$ (816)</u> | <u>\$ 9,135</u> | <u>\$ 12,552</u> | <u>\$ 31,617</u> |

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (Unaudited)

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

| Nine months ended September 30, 2019 | 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, 2018 | \$ 2,285,736 | \$ 17,519 | \$ (12,053) | \$ (122,907) | \$ (1,241,182) | \$ 6,407 | \$ 933,520 |
| Net income | - | - | - | 12,552 | - | - | 12,552 |
| Distributions to unitholders | - | - | - | - | (95,491) | - | (95,491) |
| Trust Units issued under the Distribution Reinvestment Program ("DRIP") | 19,590 | - | - | - | - | - | 19,590 |
| Trust Units issued on exchange of Class B Units | 671 | - | - | - | - | - | 671 |
| Trust units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable | 2,384 | 550 | (1,051) | - | - | 91 | 1,974 |
| Interest on EUPP receivable | - | - | (93) | - | - | - | (93) |
| Distributions applied against EUPP receivable | - | - | 692 | - | - | - | 692 |
| Unitholders' equity, September 30, 2019 | \$ 2,308,381 | \$ 18,069 | \$ (12,505) | \$ (110,355) | \$ (1,336,673) | \$ 6,498 | \$ 873,415 |

During the nine months ended September 30, 2019, distributions were declared and paid at \$0.049 per unit per month for the months of January and February and \$0.050 per unit per month for the months of March to September. In October 2019, distributions were declared at \$0.050 per unit.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Unitholders' Equity (Unaudited)

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

| 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 | 16,119 | - | - | - | - | - | 16,119 |
| Trust Units issued on exchange of Class B Units | 45 | - | - | - | - | - | 45 |
| Trust units issued under the Executive Unit Purchase Plan, 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 |
| Unitholders' equity, September 30, 2018 | \$ 2,274,258 | \$ 17,651 | \$ (12,328) | \$ (109,809) | \$ (1,209,990) | \$ 6,499 | \$ 966,281 |

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

(In thousands of Canadian dollars)

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|-------------------------------------|-----------|------------------------------------|-----------|
| | | 2019 | 2018 | 2019 | 2018 |
| Cash provided by (used in): | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | | \$ (816) | \$ 9,135 | \$ 12,552 | \$ 31,617 |
| Items not affecting cash: | | | | | |
| Depreciation and amortization | 4, 5 | 42,027 | 45,262 | 133,560 | 127,231 |
| Finance costs | 21 | 21,633 | 19,924 | 63,756 | 57,029 |
| Transaction costs arising from business acquisitions and dispositions | 20 | (310) | (83) | (1,273) | (3,522) |
| Other expense (income) | 20 | 17,046 | (232) | (24,002) | (13,464) |
| Interest income | 19 | (1,282) | (964) | (3,514) | (2,879) |
| Change in fair values of financial instruments and foreign exchange losses (gains) | 22 | (2,774) | (2,338) | 6,350 | (4,682) |
| Deferred income tax expense (benefit) | 23 | (1,363) | (27) | 19,098 | (81) |
| Share of net income from joint ventures | 9 | (1,797) | (881) | (2,498) | (1,535) |
| Other | | 808 | 80 | 1,883 | 836 |
| Change in trade and other receivables | | (1,002) | (2,268) | (8,222) | (7,853) |
| Change in other assets | | 3,038 | 3,577 | (1,524) | 10,766 |
| Change in accounts payable and other liabilities | | 9,264 | 12,032 | (6,047) | 8,444 |
| | | 84,472 | 83,217 | 190,119 | 201,907 |
| Interest income and other income received | | 1,282 | 1,073 | 3,455 | 3,212 |
| Interest paid | | (18,664) | (17,419) | (62,545) | (53,951) |
| | | 67,090 | 66,871 | 131,029 | 151,168 |
| Financing activities: | | | | | |
| Costs of public offering | | - | - | - | (267) |
| Proceeds from mortgage financing | | 82,049 | 103,509 | 146,098 | 168,759 |
| Mortgage repayments | | (8,349) | (27,218) | (39,713) | (70,226) |
| Scheduled mortgage principal repayments | | (17,868) | (16,147) | (52,422) | (46,969) |
| Proceeds from issuance of senior unsecured debentures | | - | - | - | 150,000 |
| Changes to credit facilities | 11 | (54,000) | (55,500) | 26,000 | 27,055 |
| Additions to finance costs | | (5,210) | (4,082) | (9,157) | (8,437) |
| Distributions paid | | (25,142) | (25,436) | (75,706) | (75,848) |
| | | (28,520) | (24,874) | (4,900) | 144,067 |
| Investing activities: | | | | | |
| Acquisition of assets under business combinations | 3 | - | - | (9,519) | (216,724) |
| Additions to PP&E and intangible assets | | (48,414) | (62,488) | (143,899) | (154,175) |
| Proceeds from disposal of PP&E | | 10,931 | 311 | 14,216 | 48,487 |
| Proceeds from capital funding receivable | | 1,589 | 1,505 | 4,704 | 4,454 |
| Advances of loans receivable | 6 | - | - | (3,826) | (3,969) |
| Change in restricted cash | | 64 | (206) | (29) | (1,273) |
| Distributions received from joint ventures | 9 | - | 26,643 | 10 | 26,643 |
| Contributions to joint ventures | 9 | - | - | (323) | (27,022) |
| | | (35,830) | (34,235) | (138,666) | (323,579) |
| Increase (decrease) in cash and cash equivalents | | 2,740 | 7,762 | (12,537) | (28,344) |
| Cash and cash equivalents, beginning of period | | 14,502 | 8,645 | 29,779 | 44,751 |
| Cash and cash equivalents, end of period | | \$ 17,242 | \$ 16,407 | \$ 17,242 | \$ 16,407 |

See accompanying notes to condensed consolidated interim financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

1. Organization:

Chartwell Retirement Residences ("Chartwell") is an unincorporated open-ended real estate 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.

2. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 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, 2018, 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 7, 2019.

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, 2018 with the exception of the impact of adopting the following accounting standards:

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

Chartwell adopted IFRS 16, which replaced IAS 17, Leases ("IAS 17"), using the modified retrospective approach, beginning on January 1, 2019, the mandatory effective date. The new standard requires a lessee to recognize in the statement of financial position: a liability for future lease payments (the "lease liabilities") and an asset for the right to use the underlying leased asset during the lease term ("right-of-use assets").

CHARTWELL RETIREMENT RESIDENCES

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

2. Basis of preparation (continued):

Chartwell recognized the initial effect of applying IFRS 16 as an adjustment to the balance sheet at January 1, 2019 (the date of initial application). There was no impact on unitholders' equity at the date of initial application. Comparative information has not been restated and continues to be reported in accordance with the standards and accounting policies in effect prior to January 1, 2019.

The adoption of IFRS 16 at January 1, 2019, resulted in the recognition of right-of-use assets of \$18,402 related to land leases, office leases, below market leases and capital leases and \$12,744 in lease liabilities. Included in the above are right-of-use assets of \$1,553 and lease liabilities of \$1,451 previously accounted for as capital leases, and right-of-use assets of \$5,661 previously accounted for as below market leases under IAS 17, which continue to be recorded at their carrying amounts immediately prior to the adoption of IFRS 16 as measured by applying IAS 17. Chartwell presents the right-of-use assets in property, plant and equipment and lease liabilities are recorded separately on the balance sheet as "lease obligations".

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using Chartwell's incremental borrowing rate at January 1, 2019, which was a weighted average rate of 3.8%.

At the date of initial application, Chartwell did not reassess whether a contract contained a lease, instead applying IFRS 16 only to contracts that were previously identified as leases. Chartwell has elected not to recognize right-of-use assets and liabilities for short term leases that have a lease term of twelve months or shorter and low value leases with a value lower than five thousand dollars. Payments associated with these leases are recognized as expense on a straight-line basis over the term of the lease.

Chartwell relied on its assessment of whether leases were onerous as at January 1, 2019 and did not test right-of-use assets for impairment at the date of initial application and excluded initial direct costs when measuring right-of-use assets at January 1, 2019. Chartwell did not separate the non-lease components from the lease components for office leases and certain equipment leases.

CHARTWELL RETIREMENT RESIDENCES

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

2. Basis of preparation (continued):

The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

Where Chartwell is the lessee it recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate is used. The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the same basis as those for property, plant and equipment. In addition the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(b) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"):

Chartwell adopted IFRIC 23, beginning on January 1, 2019, the mandatory effective date with no material impact to the financial statements.

IFRIC 23 requires (i) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (iii) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

CHARTWELL RETIREMENT RESIDENCES

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

3. Acquisitions:

Acquisitions during the nine months ended September 30, 2019:

On January 31, 2019, Chartwell acquired the remaining interest in Clair Hills Retirement Residence (120 suites), ("Clair Hills") for a purchase price of \$9,195. On February 1, 2019, Chartwell acquired the remaining interest in Oak Ridges Retirement Residence (129 suites), ("Oak Ridges") for a purchase price of \$324. Upon completion of these transactions, Chartwell owns a 100% interest in the properties. Since these acquisitions were completed in steps, immediately before the acquisition, Chartwell remeasured its original interests to fair value. The remeasurement has resulted in an increase in value of \$39,172 which has been recognized as a gain in other income in the condensed consolidated interim statements of comprehensive income. Chartwell incurred acquisition related costs of \$592 which have been expensed in the condensed consolidated interim statement of comprehensive income for the nine months ended September 30, 2019. Clair Hills has contributed revenue of \$5,235 and net loss of \$543 since acquisition on January 31, 2019. Oak Ridges has contributed revenue of \$4,733 and net loss of \$1,279 since acquisition on January 31, 2019.

The following table summarizes the allocation of purchase price to each major category of assets and liabilities assumed at the date of the acquisition and the major categories of consideration transferred. The acquisitions were accounted for as business combinations under IFRS 3, Business Combinations.

| Date of acquisition | January 31, 2019 | February 1, 2019 | | | | |
|--|------------------------|------------------------|----------|-----------------------------------|------------|--|
| Segment | Retirement Operations | | | | | |
| Location | Province of Ontario | Province of Ontario | | | | |
| Number of properties (suites) | 1 (120 suites) | 1 (129 suites) | Subtotal | Step accounting adjustments | Total | |
| PP&E | \$ 9,195 | \$ 324 | \$ 9,519 | \$ 101,481 | \$ 111,000 | |
| Net assets acquired | \$ 9,195 | \$ 324 | \$ 9,519 | \$ 101,481 | \$ 111,000 | |
| Cash consideration | \$ 9,195 | \$ 324 | \$ 9,519 | \$ - | \$ 9,519 | |
| Mortgage assumed | - | - | - | 56,104 | 56,104 | |
| Fair value of previously held interest | - | - | - | 45,377 | 45,377 | |
| | \$ 9,195 | \$ 324 | \$ 9,519 | \$ 101,481 | \$ 111,000 | |

CHARTWELL RETIREMENT RESIDENCES

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

3. Acquisitions (continued):

Under Chartwell's agreements with Batimo Inc. ("Batimo"), upon achievement of certain conditions, Batimo may require Chartwell to acquire an 85% interest in their development properties in which Chartwell participates as the operations manager and, in some cases, as the mezzanine lender, at 99% of Fair Market Value ("FMV"), as defined in the agreements ("Batimo Option"). Batimo's Option is for a five-year period commencing on opening of the related property. Upon expiry of the Batimo Option, Chartwell has a two-year option to require Batimo to sell an 85% interest in the property at FMV, as defined in the agreements. Two of the Batimo projects with 508 suites achieved stabilized occupancy in 2019 which is one of the conditions mentioned above. Chartwell expects to complete acquisitions of interests in these properties in Q1 2020. The estimated FMV of these properties at 100% ownership interest is \$130,500. Welltower Inc. ("Welltower") may participate as Chartwell's equal partner in the acquisition of one of these projects.

4. Property, plant and equipment:

| | Land | Buildings | Furniture, fixtures and equipment | Properties under development | Land held for development | Total |
|--|------------|--------------|-----------------------------------|------------------------------|---------------------------|--------------|
| Cost | | | | | | |
| Balance, December 31, 2018 | \$ 310,390 | \$ 3,082,413 | \$ 142,968 | \$ 193,548 | \$ 20,027 | \$ 3,749,346 |
| Recognition of right-of-use assets upon adoption of IFRS16 | 7,840 | 898 | - | - | 2,450 | 11,188 |
| Additions | - | 57,791 | 7,600 | 65,167 | - | 130,558 |
| Additions through business combinations | 10,005 | 98,775 | 2,220 | - | - | 111,000 |
| Disposals | (1,217) | (17,779) | (818) | - | - | (19,814) |
| Derecognition | - | (49,765) | (392) | - | - | (50,157) |
| Transfers | 14,293 | 113,833 | 4,598 | (132,724) | - | - |
| Transfers to assets held for sale | (2,143) | (7,277) | (2,276) | - | (253) | (11,949) |
| Balance, September 30, 2019 | \$ 339,168 | \$ 3,278,889 | \$ 153,900 | \$ 125,991 | \$ 22,224 | \$ 3,920,172 |
| Accumulated amortization and impairment losses | | | | | | |
| Balance, December 31, 2018 | - | 563,576 | 92,024 | - | - | 655,600 |
| Depreciation of right-of-use assets | 129 | 86 | - | - | 62 | 277 |
| Depreciation | - | 115,382 | 16,502 | - | - | 131,884 |
| Disposals | - | (8,064) | (649) | - | - | (8,713) |
| Derecognition | - | (49,765) | (392) | - | - | (50,157) |
| Impairment | - | 19,500 | - | - | - | 19,500 |
| Loss due to water damage | - | 2,803 | 98 | - | - | 2,901 |
| Transfers to assets held for sale | - | (3,374) | (1,559) | - | - | (4,933) |
| Balance, September 30, 2019 | \$ 129 | \$ 640,144 | \$ 106,024 | \$ - | \$ 62 | \$ 746,359 |
| Carrying amounts | | | | | | |
| Balance, December 31, 2018 | \$ 310,390 | \$ 2,518,837 | \$ 50,944 | \$ 193,548 | \$ 20,027 | \$ 3,093,746 |
| Balance, September 30, 2019 | 339,039 | 2,638,745 | 47,876 | 125,991 | 22,162 | 3,173,813 |

CHARTWELL RETIREMENT RESIDENCES

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

4. Property, plant and equipment (continued):

Chartwell adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach resulting in the capitalization of land leases and office leases which are included under the components of PP&E. The adoption of IFRS 16 did not result in changes to the measurement of leases previously accounted for as capital leases and below-market leases under IAS 17. Capital leases are included in the furniture, fixtures and equipment component and below-market leases are included in the building component of PP&E.

The following table summarize the right-of-use assets included in PP&E at January 1, 2019 and at September 30, 2019:

| Right-of-use assets | Land ⁽¹⁾ | Buildings ⁽²⁾ | Furniture, fixtures and equipment | Land held for development | Total |
|---|---------------------|--------------------------|-----------------------------------|---------------------------|-----------|
| December 31, 2018 (note 2) | \$ - | \$ 5,661 | \$ 1,553 | \$ - | \$ 7,214 |
| Newly recognized assets | 7,840 | 898 | - | 2,450 | 11,188 |
| Balance, January 1, 2019 | 7,840 | 6,559 | 1,553 | 2,450 | 18,402 |
| Additions | - | - | 479 | - | 479 |
| Depreciation - newly recognized assets | (129) | (86) | - | (62) | (277) |
| Depreciation - below market leases and capital leases | - | (138) | (573) | - | (711) |
| Balance, September 30, 2019 | \$ 7,711 | \$ 6,335 | \$ 1,459 | \$ 2,388 | \$ 17,893 |

⁽¹⁾ Relates to land leases

⁽²⁾ Relates to office leases

During the nine months ended September 30, 2019, three properties were transferred from properties under development to other components of PP&E upon commencement of operations.

On May 31, 2019, Chartwell completed the sale of a retirement residence located in Ontario for \$750.

On July 12, 2019, Chartwell completed the sale of a retirement residence located in Quebec for \$10,500.

During the nine months ended September 30, 2019, Chartwell capitalized \$3,643 (September 30, 2018 - \$3,420) of borrowing costs related to development projects under construction at an average capitalization rate of 3.81% (September 30, 2018 - 3.87%).

During the first quarter of 2019, Chartwell completed the step acquisition of Clair Hills and Oak Ridges by purchasing the remaining interests in these properties (note 3). Previously, Chartwell accounted for its interests in these properties as investments in joint ventures (note 9). As required under IFRS, the fair value of the assets acquired is included in additions through business combinations.

CHARTWELL RETIREMENT RESIDENCES

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

4. Property, plant and equipment (continued):

As at September 30, 2019, four long term care residences located in Ontario were classified as held for sale (note 14).

At September 30, 2019, Chartwell recorded impairment provisions of \$19,500 on two properties in Ontario (note 20).

Since January 1, 2010, the cost and accumulated depreciation of PP&E has been reduced by \$234,629 (December 31, 2018 - \$218,624) to remove fully amortized value of resident contracts.

5. Intangibles:

| | Goodwill | Licenses | Software ⁽¹⁾ | Total |
|---|----------|-----------|-------------------------|-----------|
| Cost | | | | |
| Balance, December 31, 2018 | \$ 9,233 | \$ 44,334 | \$ 23,111 | \$ 76,678 |
| Additions | - | - | 10,953 | 10,953 |
| Disposals | - | - | (31) | (31) |
| Transfers to assets held for sale | - | (2,990) | (88) | (3,078) |
| Balance, September 30, 2019 | \$ 9,233 | \$ 41,344 | \$ 33,945 | \$ 84,522 |
| Accumulated amortization and impairment losses | | | | |
| Balance, December 31, 2018 | - | - | 11,171 | 11,171 |
| Disposals | - | - | (14) | (14) |
| Amortization | - | - | 1,399 | 1,399 |
| Transfers to assets held for sale | - | - | (94) | (94) |
| Balance, September 30, 2019 | \$ - | \$ - | \$ 12,462 | \$ 12,462 |
| Carrying amounts | | | | |
| Balance, December 31, 2018 | \$ 9,233 | \$ 44,334 | \$ 11,940 | \$ 65,507 |
| Balance, September 30, 2019 | 9,233 | 41,344 | 21,483 | 72,060 |

⁽¹⁾ The September 30, 2019 balance includes \$18,200 (December 31, 2018 - \$8,385) in software under development.

6. Loans receivable:

On January 28, 2019, Chartwell advanced a mezzanine loan of \$3,826 for development of a 368-suite retirement residence in Longueuil, Quebec.

CHARTWELL RETIREMENT RESIDENCES

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

7. Leases:

As at September 30, 2019, Chartwell has right-of-use assets in respect of leases totalling \$17,893 with lease terms ranging from 2 to 60 years. Lease obligations related to these right-of-use assets totalled \$12,557 of which \$1,001 was classified current and \$11,556 classified non-current as at September 30, 2019. Chartwell generally does not include purchase, extension or termination options in its leases, other than extension options for land leases that support properties with lengthy useful lives.

The following table details the contractual undiscounted cash flow on the lease payments for the right-of-use assets:

| | | |
|----------------------|----|--------|
| Less than one year | \$ | 1,010 |
| One to five years | | 3,765 |
| More than five years | | 22,441 |
| Total ⁽¹⁾ | \$ | 27,216 |

⁽¹⁾ Includes three land leases with cumulative required undiscounted cash payments of \$24,661 which mature between 2044 and 2079.

8. Other assets:

| | September 30, 2019 | December 31, 2018 |
|-------------------------------|-----------------------|----------------------|
| Prepaid expenses and deposits | \$ 12,410 | \$ 7,672 |
| Restricted cash | 1,118 | 1,147 |
| Other assets | 6,935 | 9,604 |
| | \$ 20,463 | \$ 18,423 |
| Current | 18,126 | 16,006 |
| Non-current | 2,337 | 2,417 |
| | \$ 20,463 | \$ 18,423 |

Other assets include receivables of \$1,011 recorded at their fair value, related to estimated income guarantees provided by vendors of certain acquired properties (December 31, 2018 - \$2,619). Income guarantees are considered Level 3 in the fair value hierarchy. During the nine months ended September 30, 2019, \$2,142 (September 30, 2018 - \$1,712) of income guarantees were collected.

CHARTWELL RETIREMENT RESIDENCES

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

9. 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, 2019:

| Joint arrangements | Number of properties | Location | Chartwell ownership | Consolidation type |
|---|----------------------|----------|---------------------|------------------------------|
| Chartwell-Welltower Landlord ⁽¹⁾ | 37 | Canada | 50% | Joint operation |
| Chartwell-Welltower Operator ⁽¹⁾ | 37 | Canada | 50% | Joint venture ⁽²⁾ |
| Batimo | 4 | Canada | 85% | Joint operation |
| Chartwell Oakville Retirement Residence | 1 | Canada | 50% | Joint venture ⁽²⁾ |
| Chartwell Constantia Retirement Residence | 1 | Canada | 50% | Joint venture ⁽²⁾ |
| Chartwell Riverside Retirement Residence | 1 | Canada | 50% | Joint operation |
| Chartwell Churchill Retirement Residence | 1 | Canada | 50% | Joint operation |
| The Sumach by Chartwell | 1 | Canada | 45% | Joint operation |
| Kingsbridge Retirement Community | 1 | Canada | 60% | Joint venture ⁽²⁾ |
| Pickering Project ⁽³⁾ | 1 | Canada | 90% | Joint operation |

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

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

⁽³⁾ Property under development.

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

| | Nine months ended September 30, | |
|--|------------------------------------|-----------|
| | 2019 | 2018 |
| Contributions to joint ventures | \$ 323 | \$ 27,022 |
| Distributions received from joint ventures | (16,010) | (26,643) |

CHARTWELL RETIREMENT RESIDENCES

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

9. Joint arrangements (continued):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Cash and cash equivalents | \$ 7,055 | \$ 10,328 |
| Trade and other receivables | 14,853 | 8,830 |
| Other assets | 2,700 | 2,237 |
| Current assets | 24,608 | 21,395 |
| PP&E and intangible assets | 59,805 | 113,780 |
| Total assets | \$ 84,413 | \$ 135,175 |
| Accounts payable and other liabilities | \$ 16,279 | \$ 1,943 |
| Mortgages payable - current | 337 | 1,099 |
| Current liabilities | 16,616 | 3,042 |
| Mortgages payable - non-current | 46,123 | 97,268 |
| Total liabilities | \$ 62,739 | \$ 100,310 |
| Net investment in joint ventures | \$ 21,674 | \$ 34,865 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ 29,142 | \$ 31,489 | \$ 87,293 | \$ 93,388 |
| Direct property operating expense | (16,700) | (18,608) | (51,912) | (57,137) |
| Lease expense | (9,861) | (9,861) | (29,583) | (27,972) |
| Finance costs | (374) | (454) | (1,119) | (1,331) |
| Depreciation and amortization | (529) | (1,751) | (1,966) | (5,192) |
| Change in fair value of financial instruments and foreign exchange losses | 118 | 68 | (218) | (191) |
| Other income (expense) | 1 | (2) | 3 | (30) |
| Chartwell's share of net income from joint ventures | \$ 1,797 | \$ 881 | \$ 2,498 | \$ 1,535 |

CHARTWELL RETIREMENT RESIDENCES

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

9. Joint arrangements (continued):

During the first quarter of 2019, Chartwell acquired the remaining interest in Clair Hills and Oak Ridges and fully consolidated these properties in its condensed consolidated interim financial statements (note 3). Previously, Chartwell accounted for its interests in these properties as investments in joint ventures. As a result, assets and liabilities within Chartwell's joint ventures were reduced by \$72,751 and \$56,751, respectively with a corresponding reduction in net investments in joint ventures of \$16,000.

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, 2019, \$1,507 (December 31, 2018 - \$221) of Chartwell's accounts receivable and \$12,669 (December 31, 2018 - \$8,926) of Chartwell's accounts payable relate to its investments in joint ventures. For the three and nine months ended September 30, 2019, \$1,724 and \$5,047 (September 30, 2018 - \$1,612 and \$5,836), 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 are accounted for as joint ventures using the equity method.

Chartwell-Welltower Operator has leased the real estate from the landlords under their respective lease agreements. The terms of these leases are for three-year periods, with automatic renewal terms as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, \$9,861 and \$29,583 for the three and nine months ended September 30, 2019 (September 30, 2018 - \$9,861 and \$27,972), respectively, is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower Operator lease expense is included in the share of net income from joint ventures in the condensed consolidated interim statements of comprehensive income (loss).

CHARTWELL RETIREMENT RESIDENCES

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

10. 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, 2019 and December 31, 2018 are as follows:

| | September 30, 2019 | December 31, 2018 |
|---|-----------------------|----------------------|
| Mortgages payable | \$ 1,948,265 | \$ 1,836,904 |
| Mark-to-market adjustments on assumed mortgages | 10,082 | 12,460 |
| Financing costs | (44,257) | (37,030) |
| | 1,914,090 | 1,812,334 |
| Current | 262,914 | 183,649 |
| Non-current | 1,651,176 | 1,628,685 |
| | \$ 1,914,090 | \$ 1,812,334 |

Maturity for the mortgages payable as at September 30, 2019 are detailed below:

| | Regular Principal payments | Principal due on maturity | Total Debt | % of total debt |
|-------------------------|----------------------------------|---------------------------------|---------------|--------------------|
| Remainder 2019 | 18,402 | 39,731 | 58,133 | 3 |
| 2020 | 72,932 | 172,241 | 245,173 | 13 |
| 2021 | 71,220 | 163,895 | 235,115 | 12 |
| 2022 | 66,703 | 227,920 | 294,623 | 15 |
| 2023 | 60,359 | 66,789 | 127,148 | 7 |
| 2024 | 50,626 | 146,577 | 197,203 | 10 |
| 2025 | 44,535 | 59,178 | 103,713 | 5 |
| 2026 | 42,868 | 37,235 | 80,103 | 4 |
| 2027 | 40,053 | 63,176 | 103,229 | 5 |
| 2028 | 42,605 | 180,955 | 223,560 | 11 |
| 2029 | 26,181 | 85,729 | 111,910 | 6 |
| 2030 | 21,462 | - | 21,462 | 1 |
| 2031 | 20,160 | - | 20,160 | 1 |
| 2032 | 18,954 | 11,798 | 30,752 | 2 |
| 2033 | 19,472 | 8,934 | 28,406 | 1 |
| Thereafter | 41,259 | 26,316 | 67,575 | 4 |
| Total principal balance | \$ 657,791 | \$ 1,290,474 | \$ 1,948,265 | 100 |

CHARTWELL RETIREMENT RESIDENCES

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

10. Mortgages payable (continued):

| | September 30, 2019 | December 31, 2018 |
|--------------------------------|--|---|
| Mortgages at fixed rates: | | |
| Mortgages (principal) | \$ 1,890,985 | \$ 1,805,176 |
| Interest rates | 1.90% to 7.85% | 1.90% to 7.85% |
| Weighted average interest rate | 3.68% | 3.80% |
| Mortgages at variable rates: | | |
| Mortgages (principal) | \$ 57,280 | \$ 31,728 |
| Interest rates | Bankers' acceptance plus 1.55% to prime plus 1.35% | Bankers' acceptance plus 1.55% to prime plus 2.10% |
| Weighted average interest rate | 3.55% | 4.10% |
| Blended weighted average rate | 3.68% | 3.80% |

Included in mortgages at fixed rates above, are mortgages totalling \$151,473 (December 31, 2018 - \$166,432) with interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2019 and 2021. The swaps have a fair value liability of \$703 (December 31, 2018 - \$694) included in accounts payable and other accrued liabilities and fair value asset of \$426 (December 31, 2018 - \$1,483) included in trade and other receivables. The swaps are considered Level 2 in the fair value hierarchy.

CHARTWELL RETIREMENT RESIDENCES

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

11. Credit facilities:

The following tables summarize certain details of Chartwell's revolving credit facility as at September 30, 2019 and December 31, 2018:

September 30, 2019:

| | Maximum capacity | Available capacity ⁽¹⁾ | Principal amounts outstanding | Utilized for Letters of credit | Available to be drawn | Maturity date |
|---------------------------|------------------|-----------------------------------|-------------------------------|--------------------------------|-----------------------|---------------|
| Secured credit facility | \$ 300,000 | \$ 300,000 | \$ (26,000) | \$ (6,777) | \$ 267,223 | May 29, 2024 |
| Unsecured credit facility | 100,000 | 100,000 | - | - | 100,000 | May 29, 2024 |
| Total | \$ 400,000 | \$ 400,000 | \$ (26,000) | \$ (6,777) | \$ 367,223 | |

⁽¹⁾ Formula based calculation per the credit facility agreement.

December 31, 2018:

| | Maximum capacity | Available capacity ⁽¹⁾ | Principal amounts outstanding | Utilized for Letters of credit | Available to be drawn | Maturity date |
|---------------------------|------------------|-----------------------------------|-------------------------------|--------------------------------|-----------------------|---------------|
| Secured credit facility | \$ 300,000 | \$ 291,765 | \$ - | \$ (5,998) | \$ 285,767 | May 29, 2021 |
| Unsecured credit facility | 100,000 | 100,000 | - | - | 100,000 | May 29, 2021 |
| Total | \$ 400,000 | \$ 391,765 | \$ - | \$ (5,998) | \$ 385,767 | |

⁽¹⁾ Formula based calculation per the credit facility agreement.

On May 9, 2019, Chartwell entered into an amending agreement with its syndicate lenders to extend maturity of the \$300,000 secured credit facility and \$100,000 unsecured credit facility to May 29, 2024.

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 and 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.

CHARTWELL RETIREMENT RESIDENCES

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

11. Credit facilities (continued):

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.

12. Senior unsecured debentures:

The following tables detail the outstanding principal amounts and the carrying value of Chartwell's senior unsecured debentures at September 30, 2019 and at December 31, 2018:

September 30, 2019:

| | Date issued | Outstanding principal | Financing costs, net | Carrying value | Redemption date ⁽¹⁾ | Due date |
|-----------------|--------------|-----------------------|----------------------|-------------------|--------------------------------|--------------|
| 3.786% Series A | Jun 9, 2017 | \$ 200,000 | \$ (1,012) | \$ 198,988 | Oct 11, 2023 | Dec 11, 2023 |
| 4.211% Series B | Apr 27, 2018 | 150,000 | (790) | 149,210 | Feb 25, 2025 | Apr 28, 2025 |
| Total | | \$ 350,000 | \$ (1,802) | \$ 348,198 | | |

⁽¹⁾ The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to the redemption date.

December 31, 2018:

| | Date issued | Outstanding principal | Financing costs, net | Carrying value | Redemption date ⁽¹⁾ | Due date |
|-----------------|--------------|-----------------------|----------------------|-------------------|--------------------------------|--------------|
| 3.786% Series A | Jun 9, 2017 | \$ 200,000 | \$ (1,195) | \$ 198,805 | Oct 11, 2023 | Dec 11, 2023 |
| 4.211% Series B | Apr 27, 2018 | 150,000 | (922) | 149,078 | Feb 25, 2025 | Apr 28, 2025 |
| Total | | \$ 350,000 | \$ (2,117) | \$ 347,883 | | |

⁽¹⁾ The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to the redemption date.

CHARTWELL RETIREMENT RESIDENCES

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

13. Accounts payable and other liabilities:

| | Note | September 30, 2019 | December 31, 2018 |
|--|------|-----------------------|----------------------|
| Accounts payable and accrued liabilities | | \$ 124,606 | \$ 144,281 |
| Resident deposits | | 3,704 | 3,500 |
| Deferred revenue | | 250 | 1,505 |
| Deferred Trust Units ("DTU") | (a) | 15,523 | 13,313 |
| Restricted Trust Units ("RTU") | (b) | 4,978 | 4,755 |
| EUPP option component | (c) | 11,053 | 10,398 |
| | | \$ 160,114 | \$ 177,752 |

(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, 2019 was \$14.72 (December 31, 2018 - \$13.67).

| | Units outstanding | Amount |
|--|-------------------|-----------|
| Balance, December 31, 2017 | 872,599 | \$ 14,186 |
| Units granted | 65,830 | 975 |
| Change in fair value and distributions | 35,634 | (1,848) |
| Balance, December 31, 2018 | 974,063 | 13,313 |
| Units granted | 50,271 | 757 |
| Change in fair value and distributions | 30,243 | 1,453 |
| Balance, September 30, 2019 | 1,054,577 | \$ 15,523 |

(b) RTU:

During the nine months ended September 30, 2019, 271,678 notional Trust Units were granted, 9,002 notional Trust Units were cancelled, 20,787 notional Trust Units were issued in regard to distributions, and 123,548 notional Trust Units vested and were paid out. At September 30, 2019, 736,100 notional Trust Units remained outstanding (December 31, 2018 - 576,185).

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

(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.

CHARTWELL RETIREMENT RESIDENCES

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

13. Accounts payable and other liabilities (continued):

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, 2019 | December 31, 2018 |
|---------------------|-----------------------|----------------------|
| Expected volatility | 13.94% - 18.94% | 20.23% - 25.23% |
| Risk-free rate | 1.7% - 1.83% | 2.32% - 2.60% |
| Distribution yield | 4.36% - 5.08% | 4.61% - 5.18% |

14. Assets held for sale and related liabilities:

As at September 30, 2019, management is committed to a plan to sell four long term care residences located in Ontario. The sale of these long term care residences is expected to be completed in early 2020.

The following table summarizes the assets held for sale and related liabilities at September 30, 2019:

| | |
|--|-----------|
| Assets: | |
| Cash and cash equivalents | \$ 5 |
| Trade and other receivables | 294 |
| Other assets | 134 |
| PP&E, net | 7,016 |
| Intangibles, net | 2,984 |
| | \$ 10,433 |
| Liabilities: | |
| Accounts payable and other liabilities | \$ 2,540 |
| | \$ 2,540 |

15. 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 at September 30, 2019 was \$14.72 per unit (December 31, 2018 - \$13.67 per unit). At September 30, 2019, 1,597,860 Class B Units were outstanding (December 31, 2018 - 1,642,738).

CHARTWELL RETIREMENT RESIDENCES

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

16. Trust Units and EUPP:

The following Trust Units are issued and outstanding:

| | Number of Trust Units | Amount |
|--|-----------------------|--------------|
| Balance, December 31, 2017 | 209,481,633 | \$ 2,257,424 |
| Trust Units issued under DRIP | 1,460,800 | 21,253 |
| Trust Units issued in exchange of Class B Units | 6,000 | 87 |
| Trust Units released on settlement of EUPP receivable | 43,117 | 1,090 |
| Issue costs related to Trust Units pursuant to public offering | - | (267) |
| Deferred tax asset recognized through equity | - | 6,149 |
| Balance, December 31, 2018 | 210,991,550 | 2,285,736 |
| Trust Units issued under DRIP | 1,358,570 | 19,590 |
| Trust Units issued in exchange of Class B Units | 44,878 | 671 |
| Trust Units released on settlement of EUPP receivable | 120,382 | 2,384 |
| Balance, September 30, 2019 | 212,515,380 | \$ 2,308,381 |

The following table summarizes Trust Units issued under the EUPP:

| | Number of Trust Units issued under EUPP | Amount |
|---|--|-----------|
| 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 | (838) | (12) |
| Trust Units released on settlement of EUPP receivable | (43,117) | (469) |
| Balance, December 31, 2018 | 1,523,482 | 17,519 |
| Trust Units issued under EUPP | 115,768 | 1,727 |
| Trust Units released on settlement of EUPP receivable | (120,382) | (1,177) |
| Balance, September 30, 2019 | 1,518,868 | \$ 18,069 |

17. Segmented information:

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 condensed consolidated interim financial statements. Certain general, administrative and trust expenses are managed centrally by Chartwell and are not allocable to reportable operating segments. Chartwell has no material inter-segment revenue, transfers or expenses. 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 (Unaudited)
(In thousands of Canadian dollars, except per unit amounts)

17. Segmented information (continued):

| | Three months ended September 30, 2019 | | | | | | |
|--|---------------------------------------|---------------------------------|------------------|----------------------|------------|---------------------|-----------------|
| | Retirement Operations | Long Term Care Operations | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Total |
| Revenue: | | | | | | | |
| Resident Management and other fees | \$ 184,759 | \$ 59,818 | \$ 244,577 | \$ - | \$ 244,577 | \$ (28,775) | \$ 215,802 |
| Lease revenue from joint ventures | - | - | - | 2,665 | 2,665 | - | 2,665 |
| Interest income | - | - | - | - | - | 9,861 | 9,861 |
| | - | - | - | 1,649 | 1,649 | (367) | 1,282 |
| | 184,759 | 59,818 | 244,577 | 4,314 | 248,891 | (19,281) | 229,610 |
| Expenses: | | | | | | | |
| Direct property operating | (111,556) | (51,604) | (163,160) | - | (163,160) | 16,700 | (146,460) |
| Adjusted net operating income ⁽¹⁾ | 73,203 | 8,214 | 81,417 | | | | |
| Depreciation of PP&E | | | | | | | (41,579) |
| Amortization of intangible assets | | | | | | | (448) |
| Share of net income from joint ventures | | | | | | | 1,797 |
| General, administrative and trust | | | | | | | (9,194) |
| Other income (expense) | | | | | | | (17,046) |
| Finance costs | | | | | | | (21,633) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | | | | | | | 2,774 |
| | | | | | | | (85,329) |
| Income (loss) before income taxes | | | | | | | (2,179) |
| Income tax benefit (expense): | | | | | | | |
| Current | | | | | | | - |
| Deferred | | | | | | | 1,363 |
| | | | | | | | 1,363 |
| Net income (loss) | | | | | | | \$ (816) |
| Expenditures for non-current assets: | | | | | | | |
| Acquisition of properties | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capital additions | 31,923 | 1,712 | 33,635 | 14,500 | 48,135 | (6,145) | 41,990 |

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

(2) Items included under 'other' are not monitored at the segment level.

CHARTWELL RETIREMENT RESIDENCES

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

17. Segmented information (continued):

| | Three months ended September 30, 2018 | | | | | | |
|--|---------------------------------------|---------------------------------|------------------|----------------------|------------|---------------------|------------|
| | Retirement Operations | Long Term Care Operations | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Total |
| Revenue: | | | | | | | |
| Resident Management and other fees | \$ 179,790 | \$ 58,036 | \$ 237,826 | \$ - | \$ 237,826 | \$ (31,380) | \$ 206,446 |
| Lease revenue from joint ventures | - | - | - | 2,427 | 2,427 | - | 2,427 |
| Interest income | - | - | - | - | - | 9,861 | 9,861 |
| | - | - | - | 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 ⁽¹⁾ | 72,346 | 7,995 | 80,341 | | | | |
| 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 (expense) | | | | | | | 232 |
| Finance costs | | | | | | | (19,924) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | | | | | | | 2,338 |
| | | | | | | | (71,695) |
| Income (loss) before income taxes | | | | | | | 9,126 |
| Income tax benefit (expense): | | | | | | | |
| Current | | | | | | | (18) |
| Deferred | | | | | | | 27 |
| | | | | | | | 9 |
| Net income (loss) | | | | | | | \$ 9,135 |
| Expenditures for non-current assets: | | | | | | | |
| Acquisition of properties | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capital additions | 54,215 | 3,203 | 57,418 | 7,267 | 64,685 | (2,903) | 61,782 |

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

⁽²⁾ Items included under 'other' are not monitored at the segment level.

CHARTWELL RETIREMENT RESIDENCES

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

17. Segmented information (continued):

| | Nine months ended September 30, 2019 | | | | | | |
|--|--------------------------------------|---------------------------------|------------------|----------------------|------------|---------------------|------------|
| | Retirement Operations | Long Term Care Operations | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Total |
| Revenue: | | | | | | | |
| Resident Management and other fees | \$ 549,409 | \$ 176,834 | \$ 726,243 | \$ - | \$ 726,243 | \$ (86,709) | \$ 639,534 |
| Lease revenue from joint ventures | - | - | - | 7,766 | 7,766 | - | 7,766 |
| Interest income | - | - | - | - | - | 29,583 | 29,583 |
| | - | - | - | 4,098 | 4,098 | (584) | 3,514 |
| | 549,409 | 176,834 | 726,243 | 11,864 | 738,107 | (57,710) | 680,397 |
| Expenses: | | | | | | | |
| Direct property operating | (336,045) | (153,046) | (489,091) | - | (489,091) | 51,912 | (437,179) |
| Adjusted net operating income ⁽¹⁾ | 213,364 | 23,788 | 237,152 | | | | |
| Depreciation of PP&E | | | | | | | (132,161) |
| Amortization of intangible assets | | | | | | | (1,399) |
| Share of net income from joint ventures | | | | | | | 2,498 |
| General, administrative and trust | | | | | | | (34,402) |
| Other income (expense) | | | | | | | 24,002 |
| Finance costs | | | | | | | (63,756) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | | | | | | | (6,350) |
| | | | | | | | (211,568) |
| Income (loss) before income taxes | | | | | | | 31,650 |
| Income tax benefit (expense): | | | | | | | |
| Current | | | | | | | - |
| Deferred | | | | | | | (19,098) |
| | | | | | | | (19,098) |
| Net income (loss) | | | | | | | \$ 12,552 |
| Expenditures for non-current assets: | | | | | | | |
| Acquisition of properties | \$ 111,000 | \$ - | \$ 111,000 | \$ - | \$ 111,000 | \$ - | \$ 111,000 |
| Capital additions | 105,081 | 5,999 | 111,080 | 40,571 | 151,651 | (10,140) | 141,511 |

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

⁽²⁾ Items included under 'other' are not monitored at the segment level.

CHARTWELL RETIREMENT RESIDENCES

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

17. Segmented information (continued):

| Nine months ended September 30, 2018 | | | | | | | |
|--|--------------------------|---------------------------------|------------------|----------------------|------------|---------------------|------------------|
| | Retirement Operations | Long Term Care Operations | Segment Total | Other ⁽²⁾ | Subtotal | Recon- ciliation | Total |
| 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 ⁽¹⁾ | 205,013 | 22,587 | 227,600 | | | | |
| 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 (expense) | | | | | | | 13,464 |
| Finance costs | | | | | | | (57,029) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | | | | | | | 4,682 |
| | | | | | | | (199,121) |
| Income (loss) before income taxes | | | | | | | 31,580 |
| Income tax benefit (expense): | | | | | | | |
| Current | | | | | | | (44) |
| Deferred | | | | | | | 81 |
| | | | | | | | 37 |
| Net income (loss) | | | | | | | \$ 31,617 |
| 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 |

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

⁽²⁾ Items included under 'other' are not monitored at the segment level.

CHARTWELL RETIREMENT RESIDENCES

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

17. Segmented information (continued):

| September 30, 2019 | Retirement Operations | Long Term Care Operations | Segment Total | Other | Subtotal | Recon- ciliation | Total |
|--------------------|--------------------------|---------------------------------|------------------|------------|-------------|---------------------|--------------|
| Total assets | \$3,099,763 | \$ 248,719 | \$ 3,348,482 | \$ 140,654 | \$3,489,136 | \$ (84,413) | \$ 3,404,723 |
| Total liabilities | \$1,951,307 | \$ 151,532 | \$ 2,102,839 | \$ 491,208 | \$2,594,047 | \$ (62,739) | \$ 2,531,308 |

| December 31, 2018 | Retirement Operations | Long Term Care Operations | Segment Total | Other | Subtotal | Recon- ciliation | Total |
|-------------------|--------------------------|---------------------------------|------------------|------------|-------------|---------------------|--------------|
| Total assets | \$3,091,127 | \$ 250,564 | \$ 3,341,691 | \$ 112,332 | \$3,454,023 | \$ (135,175) | \$ 3,318,848 |
| Total liabilities | \$1,881,179 | \$ 155,051 | \$ 2,036,230 | \$ 449,408 | \$2,485,638 | \$ (100,310) | \$ 2,385,328 |

18. Financial instruments:

The carrying values and fair values of financial instruments, excluding loans receivable, interest rate swaps, liabilities related to Class B Units and income guarantees, are shown in the table below. The table below excludes cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and other liabilities, and distributions payable, as the carrying value of these assets and liabilities are a reasonable approximation of fair value.

| | September 30, 2019 | | December 31, 2018 | |
|---|--------------------|-------------|-------------------|--------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial liabilities: | | | | |
| Financial liabilities recorded at amortized cost: | | | | |
| Mortgages payable | \$ 1,914,090 | \$2,037,121 | \$ 1,812,334 | \$ 1,882,491 |
| Credit facilities | 26,000 | 26,000 | - | - |
| Senior unsecured debentures | 348,198 | 356,830 | 347,883 | 349,198 |

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.

CHARTWELL RETIREMENT RESIDENCES

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

18. Financial instruments (continued):

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

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, 2019, the mortgages payable were discounted using rates between 2.37% and 3.73% (December 31, 2018 - 2.86% and 4.38%). 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 (note 6) and credit facilities approximates their 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, 2019, senior unsecured debentures were discounted using a rate of 3.54% (December 31, 2018 - 4.03%). 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.

19. Revenue:

| | Three months ended | | Nine months ended | |
|---------------------------------|--------------------|-------------------|-------------------|-------------------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Lease revenue ⁽¹⁾ | \$ 88,977 | \$ 82,947 | \$ 262,511 | \$ 239,752 |
| Services revenue ⁽²⁾ | 136,686 | 133,360 | 406,606 | 389,946 |
| Interest income | 1,282 | 964 | 3,514 | 2,879 |
| Management and other fees | 2,665 | 2,427 | 7,766 | 8,249 |
| Total revenue | \$ 229,610 | \$ 219,698 | \$ 680,397 | \$ 640,826 |

⁽¹⁾ Operating lease revenue which includes resident lease revenue and lease revenue from joint ventures.

⁽²⁾ Includes property services element in accordance with IFRS 15, Revenue from Contracts with Customers and long term care services revenue.

CHARTWELL RETIREMENT RESIDENCES

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

20. Other income (expense):

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Property lease expense | \$ - | \$ (100) | \$ - | \$ (297) |
| Transaction costs arising on business acquisitions and dispositions | (310) | (83) | (1,273) | (3,522) |
| Impairment losses | (19,500) | - | (19,500) | - |
| Other expense | (19,810) | (183) | (20,773) | (3,819) |
| Other income | 151 | 152 | 546 | 420 |
| Remeasurement gain (note 3) | - | - | 39,172 | - |
| Gain on disposal of assets | 2,613 | 263 | 5,057 | 16,863 |
| Other income | 2,764 | 415 | 44,775 | 17,283 |
| Other income (expense) | \$ (17,046) | \$ 232 | \$ 24,002 | \$ 13,464 |

During Q3, 2019, Chartwell recorded impairment provisions of \$19,500 on two of its retirement properties located in Ottawa, Ontario, which represented the write down of PP&E. Chartwell has determined that each of its properties are Cash Generating Units ("CGU") for purposes of impairment assessments as each property independently generates cash flows. The recoverable amount for the two properties at September 30, 2019 was \$95,114 which was recorded on a valuation based on fair value less costs of disposal. The impairment losses resulted from a decline in the operating performance of these properties due to competitive pressures in the Ottawa market.

Fair value is measured using the present value of future cash flows and are categorized within Level 2 of the fair value hierarchy. In calculating fair value, management estimates future cash flows using historical experience, budgets and forecasts for the following fiscal year, and considers future opportunities and risks in determining growth rates for future periods. The discount rates applied to cash flows to determine the recoverable amount are based on recent transactions of similar assets within the market.

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
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21. Finance costs:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------------------|------------------------------------|--------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Contractual interest expense on mortgages | \$ (17,975) | \$ (16,447) | \$ (53,139) | \$ (48,281) |
| Interest expense on senior unsecured debentures | (3,500) | (3,500) | (10,387) | (8,380) |
| Credit facility and other interest expense | (644) | (957) | (1,992) | (2,407) |
| | (22,119) | (20,904) | (65,518) | (59,068) |
| Interest capitalized to properties under development | 1,155 | 1,424 | 3,643 | 3,420 |
| Amortization of financing costs and mark to-market adjustment on assumption of mortgages payable | (429) | (202) | (1,159) | (658) |
| Distributions on Class B Units recorded as interest expense | (240) | (242) | (722) | (723) |
| Total finance costs | \$ (21,633) | \$ (19,924) | \$ (63,756) | \$ (57,029) |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Change in fair value of interest rate swaps | \$ 92 | \$ 42 | \$ (1,293) | \$ (309) |
| Foreign exchange gains (losses) | 55 | (85) | (125) | 122 |
| Change in fair value of EUPP option component | 1,246 | 776 | (1,608) | 1,285 |
| Change in fair value of Class B Units | 796 | 1,135 | (1,736) | 2,670 |
| Change in fair value of DTU | 364 | 509 | (1,451) | 1,063 |
| Change in fair value - other | (266) | (29) | (671) | (85) |
| Change in fair value of net operating income guarantees | 487 | (10) | 534 | (64) |
| Change in fair values of financial instruments and foreign exchange gains (losses) | \$ 2,774 | \$ 2,338 | \$ (6,350) | \$ 4,682 |

CHARTWELL RETIREMENT RESIDENCES

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
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23. Income taxes:

For the three and nine months ended September 30, 2019, Chartwell recorded a deferred tax benefit of \$1,363 and deferred tax expense of \$19,098 (September 30, 2018 - deferred tax benefit of \$27 and \$81), respectively. The deferred tax expense for the nine months ended September 30, 2019 relates to step accounting adjustments on the acquisition of the remaining interests in Clair Hills and Oak Ridges Retirement Residences accounted for as business combinations, as well as the reversal of temporary differences on the accounting and tax basis of PP&E. This was offset by the deferred tax benefit as a result of the impairment loss recorded in the three months ended September 30, 2019.

24. Comparative statements:

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2019 condensed consolidated interim financial statements.