Consolidated Financial Statements
(In Canadian dollars)

CHARTWELL RETIREMENT RESIDENCES

Years ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chartwell Retirement Residences

Opinion

We have audited the consolidated financial statements of Chartwell Retirement Residences (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of net income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Thomas Rothfischer.

Toronto, Canada

March 1, 2019

CHARTWELL RETIREMENT RESIDENCES

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2018 and 2017

	Note	2018	2017
Assets			
Current assets:			
Cash and cash equivalents		$ 29,779	$ 44,751
Trade and other receivables		13,092	11,840
Capital funding receivable	6	6,317	5,981
Other assets	7	16,006	24,860
Loans receivable	8	494	–
Asset held for sale	14	–	10,113
Total current assets		65,688	97,545
Non-current assets:			
Other assets	7	2,417	2,863
Loans receivable	8	14,411	6,753
Capital funding receivable	6	42,214	48,530
Investment in joint ventures	9(b)	34,865	37,564
Intangible assets	5	65,507	56,034
Property, plant and equipment ("PP&E")	4	3,093,746	2,764,610
Total non-current assets		3,253,160	2,916,354
Total assets		$ 3,318,848	$ 3,013,899
Liabilities and Unitholders' Equity			
Current liabilities:			
Accounts payable and other liabilities	12	$ 177,752	$ 143,981
Distributions payable		10,493	10,203
Mortgages payable	10(a)	183,649	165,300
Deferred consideration on business combinations		–	1,760
Liabilities related to asset held for sale	14	–	6,641
Total current liabilities		371,894	327,885
Non-current liabilities:			
Mortgages payable	10(a)	1,628,685	1,449,032
Senior unsecured debentures	11	347,883	198,593
Class B Units of Chartwell Master Care LP ("Class B Units")	15	22,456	26,808
Deferred tax liabilities	25	14,410	1,414
Total non-current liabilities		2,013,434	1,675,847
Total liabilities		2,385,328	2,003,732
Unitholders' equity	16	933,520	1,010,167
Total liabilities and unitholders' equity		$ 3,318,848	$ 3,013,899

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Huw Thomas" Trustee "Lise Bastarache" Trustee

CHARTWELL RETIREMENT RESIDENCES

Consolidated Statements of Net Income and Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

	Note	2018	2017
Revenue:			
Resident	20	$ 814,262	$ 752,775
Management and other fees	20	10,708	8,861
Lease revenue from joint ventures	9(b)	37,833	34,700
Interest income		3,851	3,958
		866,654	800,294
Expenses (income):			
Direct property operating	28	557,839	520,376
Depreciation of PP&E	4	170,588	151,565
Amortization of intangible assets	5	1,767	1,784
Share of net income from joint ventures	9(b)	(1,482)	(4,716)
General, administrative and trust	28	43,890	38,007
Other expense (income)	22	(12,234)	6,176
Finance costs	23	76,778	71,122
Change in fair values of financial instruments and foreign exchange losses (gains)	24	(8,219)	2,987
		828,927	787,301
Income before income taxes		37,727	12,993
Income tax expense (benefit):	25		
Current		63	15
Deferred		19,145	(104)
		19,208	(89)
Net income and comprehensive income[1]		$ 18,519	$ 13,082

[1] Referred to as "Net income" throughout the consolidated financial statements

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2018 and 2017

2018	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated gains (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2017	$ 2,257,424	$ 16,213	$ (11,362)	$ (141,426)	$ (1,117,176)	$ 6,494	$ 1,010,167
Net income	–	–	–	18,519	–	–	18,519
Distributions to unitholders	–	–	–	–	(124,006)	–	(124,006)
Issue costs related to Trust Units pursuant to public offering	(267)	–	–	–	–	–	(267)
Deferred tax asset recognized through equity (Note 25)	6,149	–	–	–	–	–	6,149
Trust Units issued under the Distribution Reinvestment Program ("DRIP")	21,253	–	–	–	–	–	21,253
Trust Units issued on exchange of Class B Units	87	–	–	–	–	–	87
Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable	1,090	1,306	(1,460)	–	–	(87)	849
Interest on EUPP receivable	–	–	(120)	–	–	–	(120)
Distributions applied against EUPP receivable	–	–	889	–	–	–	889
Unitholders' equity, December 31, 2018	$ 2,285,736	$ 17,519	$ (12,053)	$ (122,907)	$ (1,241,182)	$ 6,407	$ 933,520

During the year ended December 31, 2018, distributions were declared and paid at $0.048 per unit per month for the months of January and February, and $0.049 per unit per month from March to December. In the first two months of 2019, distributions were declared at $0.049 per unit per month.

CHARTWELL RETIREMENT RESIDENCES

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

Years ended December 31, 2018 and 2017

2017	Trust Units issued in dollars, net	Trust Units issued under EUPP	EUPP receivable	Accumulated gains (losses)	Distributions	Other equity components	Total
Unitholders' equity, December 31, 2016	$ 1,973,499	$ 16,588	$ (12,004)	$ (154,508)	$ (1,005,151)	$ 6,559	$ 824,983
Net income	–	–	–	13,082	–	–	13,082
Distributions to unitholders	–	–	–		(112,025)	–	(112,025)
Issuance of Trust Units pursuant to public offering	258,482	–	–	–	–	–	258,482
Trust Units issued under the Distribution Reinvestment Program	20,115	–	–	–	–	–	20,115
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	2,759	(375)	(101)	–	–	(65)	2,218
Trust Units issued on settlement of Deferred Trust Units	2,412	–	–	–	–	–	2,412
Interest on EUPP receivable	–	–	(118)	–	–	–	(118)
Distributions applied against EUPP receivable	–	–	861	–	–	–	861
Unitholders' equity, December 31, 2017	$ 2,257,424	$ 16,213	$ (11,362)	$ (141,426)	$ (1,117,176)	$ 6,494	$ 1,010,167

During the year ended December 31, 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 from March to December.

See accompanying notes to consolidated financial statements.

CHARTWELL RETIREMENT RESIDENCES

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

	Note	2018	2017
Cash provided by (used in):			
Operating activities:			
Net income		$ 18,519	$ 13,082
Items not affecting cash:			
Depreciation and amortization	4, 5	172,355	153,349
Finance costs	23	76,778	71,122
Other expense (income)	22	(12,234)	6,176
Interest income	20	(3,851)	(3,958)
Change in fair values of financial instruments and foreign exchange losses (gains)	24	(8,219)	2,987
Deferred income taxes expense (benefit)	25	19,145	(104)
Share of net income from joint ventures	9(b)	(1,482)	(4,716)
Other		942	1,240
Change in trade and other receivables		(2,928)	9,556
Change in other assets		12,802	(6,953)
Change in accounts payable and other liabilities		22,328	17,514
		294,155	259,295
Interest income and other income received		4,519	4,836
Interest paid		(79,315)	(73,768)
		219,359	190,363
Financing activities:			
Proceeds from public offering	16(a)	–	269,526
Issue costs on public offering	16(a)	(267)	(11,044)
Proceeds from mortgage financing	13	239,220	311,316
Mortgage repayments	13, 14	(75,175)	(299,227)
Scheduled mortgage principal repayments	13	(63,833)	(57,856)
Proceeds from issuance of senior unsecured debentures	11	150,000	200,000
Changes to credit facilities		–	(172,000)
Net additions to finance costs	13	(10,547)	(14,912)
Distributions paid on Trust Units		(102,585)	(90,875)
		136,813	134,928
Investing activities:			
Acquisition of assets under business combinations	3(a)	(216,724)	(167,558)
Additions to PP&E and intangible assets		(200,624)	(159,031)
Proceeds from disposal of PPE		49,287	21,792
Proceeds from capital funding receivable	6	5,980	5,662
Collection of loans receivable		–	1,487
Advances of loans receivable	8	(8,152)	(3,569)
Transaction costs arising from business acquisitions and dispositions	22	(3,873)	(7,540)
Change in restricted cash		(1,219)	193
Contributions to joint ventures	9(b)	(28,057)	(9,202)
Distributions received from joint ventures	9(b)	32,238	7,176
		(371,144)	(310,590)
Increase (decrease) in cash		(14,972)	14,701
Cash and cash equivalents, beginning of year		44,751	30,050
Cash and cash equivalents, end of year		$ 29,779	$ 44,751

See accompanying notes to consolidated financial statements.

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

Chartwell owns 100% of the outstanding Trust Units of CSH Trust, an unincorporated, open-ended trust established under the laws of the Province of Ontario, which in turn owns 51.98% of the outstanding Class A Units of Chartwell Master Care LP ("Master LP"), a limited partnership created under the laws of the Province of Manitoba. Class B Units of Master LP are held by non-controlling investors. Chartwell also has direct ownership of 48.02% of Class A Units of Master LP.

The assets of Chartwell are held by the wholly owned Master LP, which carries out the business of Chartwell. Its activities are financed through equity contributed by Chartwell, CSH Trust, Class B unitholders and debt, including mortgages.

Chartwell's Declaration of Trust provides that distributions will be within the discretion of the Board of Trustees.

1. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

On March 1, 2019, the Board of Trustees authorized the consolidated financial statements for issue.

(b) Functional currency:

These consolidated financial statements are presented in Canadian dollars, Chartwell's functional currency.

1. Basis of preparation (continued):

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

(i) financial instruments classified as fair value through profit or loss ("FVTPL") are measured at fair value (note 2(h)); and

(ii) liabilities for cash-settled, unit-based payment arrangements are measured at fair value.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the future financial year are included in the following notes:

(i) note 2(e) - Impairment of property, plant and equipment;

(ii) notes 2(e) and 5 - Impairment of indefinite life intangible assets; and

(iii) notes 2(a)(iii) and 3 - The estimate of the fair value of assets and liabilities acquired in a business combination.

1. Basis of preparation (continued):

In the process of applying the accounting policies, Chartwell makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognized in the consolidated financial statements. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note:

(i) note 2(d)(i) - Intangible assets - licenses: assessment of indefinite useful life; and

(ii) note 2(c) - Componentization of property, plant and equipment.

2. Significant accounting policies:

(a) Basis of consolidation:

(i) Transactions eliminated on consolidation:

The consolidated financial statements include the accounts of Chartwell and its subsidiaries, as well as the proportionate share of the accounts of its joint operations. All intercompany transactions have been eliminated on consolidation.

(ii) Joint arrangements:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

These consolidated financial statements include Chartwell's proportionate share of each of the assets, liabilities, revenue and expenses of joint operations on a line-by-line basis. Joint ventures are included in Chartwell's consolidated financial statements as investments using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. Chartwell's share of joint venture profit or loss is included in the consolidated statements of net income and comprehensive income.

2. Significant accounting policies (continued):

(iii) Business combinations:

The cost of a business combination is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. Chartwell recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination.

Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The excess of the purchase price over the fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition goodwill is recorded as an asset. When an acquisition does not meet the criteria for business combination accounting treatment, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated upon initial recognition to the assets and liabilities acquired based upon their relative fair values.

Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period", which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date. Subsequent changes in fair value of contingent consideration classified as assets or liabilities that do not qualify as measurement period adjustments are recognized as a gain or loss in net income.

Transaction costs, other than those associated with the issue of debt or equity securities incurred in connection with the acquisition are expensed as incurred.

If a business combination is achieved in stages, the fair value on the acquisition date of Chartwell's previously held equity interest in the acquiree is remeasured to fair value through profit or loss.

2. Significant accounting policies (continued):

(b) Foreign currency:

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the respective functional currencies at the exchange rate at the reporting dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Property, plant and equipment:

Chartwell considers its properties to be owner-occupied properties under International Accounting Standard ("IAS") 16, Property, Plant and Equipment ("IAS 16").

PP&E includes land, buildings, furniture, fixtures and equipment, which are measured at cost less accumulated depreciation and accumulated impairment losses.

Properties under development and land held for development are carried at cost and are not subject to depreciation. Cost includes initial acquisition costs, other direct costs, realty taxes and interest during the development period. The development period ends when the asset is available for use and construction is complete. Upon completion, properties under development are transferred to the appropriate asset class.

Significant parts of the buildings are accounted for as separate components of the property, based on management's judgement of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization. The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to Chartwell, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of ongoing repairs and maintenance of the properties are recognized in profit or loss as incurred.

2. Significant accounting policies (continued):

Depreciation is recorded in profit or loss on a straight-line basis over the estimated useful lives of the assets. The following are the estimated maximum useful lives of existing PP&E:

Components:	
Structure	40 years
Mechanical, electrical and elevators	30 years
Roof, windows and doors	20 years
Interior upgrades	3 years
Resident contracts and above- and below-market leases	3 years
Furniture, fixtures and equipment	5 years

Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. The rates and methods used are reviewed annually at year end to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing.

Gains/losses on disposition of PP&E are recognized in profit or loss in accordance with the requirements for determining when a performance obligation is satisfied under IFRS 15.

The value associated with in-place resident contracts, which represents the avoided cost of originating the acquired resident contracts plus the value of the avoided loss of net resident revenue over the estimated lease-up period of the property, is amortized over the expected term of the resident occupancy. Resident contracts are recorded as a component of buildings.

2. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets, which include licenses, goodwill arising on business combinations and other intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, except in the case of goodwill and intangible assets with an indefinite life, which are measured at cost less accumulated impairment losses and are not amortized.

(i) Licenses:

Licenses for the operation of long-term care properties are considered to have indefinite lives. Given the current demographic of the Canadian markets, as well as the expectation that the demand for licensed beds will increase beyond its current supply, management has determined that the licenses have an indefinite life.

(ii) Software:

Software costs, which include internally developed and externally purchased software licenses, are amortized over one to three years on a straight-line basis.

(iii) Goodwill:

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination and is measured at cost less any accumulated impairment losses. An impairment loss, once recorded, cannot be reversed in subsequent years.

2. Significant accounting policies (continued):

(e) Impairment of non-financial assets:

The carrying amounts of Chartwell's PP&E are assessed at each reporting date to determine if any events have occurred that would indicate the PP&E may be impaired. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash generating unit ("CGU") is the higher of (a) fair value less costs to sell, and (b) value in use. The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of the recoverable amounts were based upon information that was known at the time, along with the future outlook. Chartwell completes the assessment of fair value using financial performance and current capitalization rates.

Intangible assets that have indefinite useful lives are tested for impairment annually, or more frequently, if events or circumstances indicate that the assets might be impaired.

Goodwill is tested for impairment at least annually or whenever indicators of impairment of the CGU to which the goodwill relates have occurred.

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances, assessed at each reporting date, indicate the carrying amount may not be recoverable.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed (except for goodwill) if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2. Significant accounting policies (continued):

(f) Capital funding receivable:

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

(g) Assets held for sale:

Assets, or disposal groups comprising assets and liabilities, are categorized as held-for-sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to dispose of the assets of the disposal group; the asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Immediately before classification as held-for-sale, the assets, or components of the disposal group are remeasured in accordance with Chartwell's accounting policies, and are subsequently measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss until the completion of sale.

2. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are generally measured at fair value on initial recognition. The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and (iii) fair value through other comprehensive income ("FVTOCI"). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statement of net income. Financial assets classified as FVTOCI are measured at fair value with gains or losses recognized through other comprehensive income, except for gains and losses pertaining to impairment or foreign exchange recognized through net income.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability presented in other comprehensive income, and the remaining amount of change in fair value presented in the consolidated statement of net income.

Chartwell has made the following classifications for its financial instruments:

Account	Measurement
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Restricted cash	Amortized cost
Income guarantee receivable	FVTPL
Loans receivable	FVTPL
Accounts payable and other liabilities	Amortized cost
Distributions payable	Amortized cost
Mortgages payable	Amortized cost
Credit facilities	Amortized cost
Senior unsecured debentures	Amortized cost
Derivative Instruments	FVTPL
Class B Units	FVTPL

2. Significant accounting policies (continued):

Chartwell derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Chartwell derecognizes a financial liability when, and only when, Chartwell's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized through net income.

Chartwell adopted the practical expedient to determine expected credit losses ("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 consolidated statements of net income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include, discounts or premiums relating to assumed debt, fees and commissions paid to agents, brokers advisers, lenders and insurers, transfer taxes and duties.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments:

Chartwell enters into interest rate swap arrangements from time to time in order to reduce the impact of fluctuating interest rates on long-term debt. These swap agreements require periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These swap arrangements are not designated as hedging instruments under IFRS.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when Chartwell has a legal right to offset the amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2. Significant accounting policies (continued):

Trust Units:

Trust Units are redeemable at the holder's option and therefore are considered to be a puttable instrument in accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. The Trust Units meet the exemption conditions of IAS 32 and are presented as equity.

As a result of the redemption feature of the Trust Units, they meet the definition of a financial liability under IAS 32 and may not be considered as equity for the purposes of calculating net income on a per unit basis in accordance with IAS 33, Earnings Per Share. Chartwell has therefore elected to not report an earnings per unit calculation, permitted under IFRS.

Class B Units:

The Class B Units of the Partnership are economically equivalent to Trust Units, receive distributions equal to the distributions paid on Trust Units and are exchangeable at the holder's option into Units. One Special Trust Voting Unit in Chartwell is issued to the holder of Class B Units for each Class B Unit held. However, the limited IAS 32 exception for presentation as equity does not extend to the Class B Units. As a result, the Class B Units have been classified as financial liabilities and are measured at FVTPL. The fair value of the Class B Units is measured every period by reference to the traded value of the Trust Units, with changes in measurement recorded in net income. Distributions on the Class B LP Units are recorded as a finance cost in the consolidated statements of net income and comprehensive income in the period in which they become payable.

2. Significant accounting policies (continued):

(i) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by Chartwell.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

Chartwell uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. Significant accounting policies (continued):

(j) Employee benefits:

(i) Short-term benefits:

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as Chartwell has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefits are recorded in accounts payable and other liabilities.

(ii) Employee health benefits:

Chartwell self-insures the cost of certain employee health plans. These plans are administered by an independent third party. Accruals for self-insured liabilities include estimates of costs of both reported claims and claims incurred but not reported and are based on estimates of loss based on assumptions made by management, including consideration of projections provided by the independent third-party administrator of the plan.

(iii) Unit-based payment plans:

Chartwell maintains an EUPP, Deferred Trust Unit ("DTU") Plan, and Restricted Trust Unit Plans ("RTU") for its employees, directors and Trustees. While the EUPP and DTU Plan require settlement in Trust Units and RTU Plan is settled in cash, all these plans are accounted for as cash-settled awards, as Chartwell's Trust Units are puttable. The fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the relevant service periods. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

(k) Income taxes:

Income tax expense (recovery) comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in unitholders' equity or in other comprehensive income (loss).

2. Significant accounting policies (continued):

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

Chartwell is a mutual fund trust and a specified investment flow-through trust ("SIFT") pursuant to the Income Tax Act (Canada). Under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

Judgment is required to assess the interpretation of tax legislation when recognizing and measuring current and deferred tax assets and liabilities. The impact of different interpretations and applications could potentially be material. Chartwell recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

2. Significant accounting policies (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Management's estimate of future taxable profits and the recognition of deferred tax assets are reviewed at each reporting date and deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Revenue recognition:

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

(i) Retirement community resident revenue:

Chartwell charges for (a) the rental of retirement accommodation and (b) 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.

(a) 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.

2. Significant accounting policies (continued):

(b) Services revenue:

Revenue related to the care service components of Chartwell's leases is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers ("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.

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.

2. Significant accounting policies (continued):

(iii) Fee revenue:

Chartwell provides property and development 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 these services are variable in nature and are not estimated, but rather are allocated to the distinct service periods to which they specifically relate and are recognized when services are performed. Payments are due at the beginning of each month.

(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.

(m) Lease payments:

Chartwell is obligated to make payments under land and office space leases. Such leases are classified as operating leases and not recognized in the consolidated balance sheets as substantially all of the risks and rewards of ownership are not transferred to Chartwell. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(n) IFRS amendments adopted in 2018:

(i) 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.

2. Significant accounting policies (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.

2. Significant accounting policies (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.

2. Significant accounting policies (continued):

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

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.

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

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.

IFRS 15 replaced IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. Disaggregation of revenue has been disclosed in Note 20.

(iii) 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. Significant accounting policies (continued):

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

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

IFRS 16 will replace IAS 17, Leases ("IAS 17"). The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16.

Chartwell will adopt IFRS 16 from the beginning of January 1, 2019. The adoption of IFRS 16 will result in the recognition of right-of-use assets and lease liabilities of approximately $12,000. The right-of-use assets and lease liabilities primarily relate to the land leases.

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

On June 7, 2017, the IASB issued IFRIC 23, which provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

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 intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2019. The adoption of this standard will have no material impact on the consolidated financial statements.

2. Significant accounting policies (continued):

(iii) Definition of a business (Amendments to IFRS 3, Business Combinations):

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"), that seek to clarify whether a transaction is to be accounted for as an asset acquisition or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

Chartwell intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2020, when the standard becomes effective. Chartwell is currently in the process of evaluating the impact of this standard on its financial statements.

(iv) Annual Improvements to IFRS Standards (2015-2017) Cycle:

On December 12, 2017, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- IFRS 3, Business Combinations, and IFRS 11, Joint Arrangements ("IFRS 11") - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;

- IAS 12, Income Taxes - to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, OCI, or equity; and

- IAS 23, Borrowing Costs - to clarify that specific borrowings - i.e. funds borrowed specifically to finance the construction of a qualifying asset - should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

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

2. Significant accounting policies (continued):

Chartwell intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2019. The adoption of these amendments will have no material impact on the consolidated financial statements.

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2018:

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

Date of acquisition	April 23, 2018	June 1, 2018	Total
Segment	Retirement Operations		
Location	Province of Alberta	Province of Alberta	
Number of properties (suites)	4 (775 suites)	1 (104 suites)	
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 7)	(1,624)	–	(1,624)
Total consideration transferred	$ 295,776	$ 20,000	$ 315,776

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 7). The properties have contributed revenue of $23,366 and net loss of $5,989 since acquisition. Chartwell incurred acquisition-related costs of $2,577, which have been expensed in the consolidated statements of net income and comprehensive income. Chartwell entered into a forward purchase agreement to acquire a 256 suite residence conditional upon completion of its development which is expected in the fourth quarter of 2019 for a contractual purchase price of $120,000.

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

3. Acquisitions (continued):

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 $1,832 and net loss of $46 since acquisition. Chartwell incurred acquisition-related costs of $152, which have been expensed in the consolidated statements of net income and comprehensive income.

(b) Acquisitions during the year ended December 31, 2017:

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

Date of acquisition	February 1, 2017	March 1, 2017	July 4, 2017	July 20 2017	Total
Segment	Retirement Operations				
Location	Province of Ontario	Province of Ontario	Province of Ontario	Province of Quebec	
Number of properties (suites)	1 (107 suites)	1 (66 suites)	3 (522 suites)	1 (343 suites)	
PP&E	$ 22,000	$ 6,950	$ 120,750	$ 59,927	$ 209,627
Net assets acquired	$ 22,000	$ 6,950	$ 120,750	$ 59,927	$ 209,627
Cash consideration	$ 22,000	$ 6,950	$ 120,750	$ 17,858	$ 167,558
Construction loan assumed	–	–	–	37,060	37,060
Mezzanine loan settled	–	–	–	5,857	5,857
Income support receivable	–	–	–	(848)	(848)
Total consideration transferred	$ 22,000	$ 6,950	$ 120,750	$ 59,927	$ 209,627

On February 1, 2017, Chartwell acquired a 100% interest in a 107 suite retirement residence located in Vineland, Ontario. The purchase price before working capital adjustments and closing costs was $22,000 and was settled in cash. In 2017, the property contributed revenue of $4,110 and net loss of $1,322. Chartwell incurred acquisition-related costs of $881, which have been expensed in the consolidated statements of net income and comprehensive income.

3. Acquisitions (continued):

On March 1, 2017, Chartwell acquired a 100% interest in a 66 suite retirement residence located in Thunder Bay, Ontario. The purchase price before working capital adjustments and closing costs was $6,950 and was settled in cash. In 2017, the property contributed revenue of $1,456 and net loss of $449. Chartwell incurred acquisition-related costs of $158, which have been expensed in the consolidated statements of net income and comprehensive income.

On July 4, 2017, Chartwell acquired a 100% interest in a portfolio of three properties in Ontario totalling 522 suites. The purchase price before working capital adjustments and closing costs was $120,750 and was settled in cash. In 2017, the properties contributed revenue of $11,104 and net loss of $2,895. Chartwell incurred acquisition-related costs of $2,762 which have been expensed in the consolidated statements of net income and comprehensive income.

On July 20, 2017, Chartwell acquired an 85% interest in a 343 suite retirement residence located in Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price before working capital and closing costs was $60,775 and was settled through assumption of a construction loan of $37,060, settlement of the Chartwell mezzanine loan to Batimo of $5,857 and cash. Batimo has committed to provide income support if the operating results fall below a certain threshold with an estimated fair value of $848. This amount has been recorded as a reduction of consideration paid. In 2017, the property contributed revenue of $3,559 and net loss of $926. Chartwell incurred acquisition-related costs of $1,199, which have been expensed in the consolidated statements of net income and comprehensive income.

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

4. Property, plant and equipment:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Land held for development	Total
Cost						
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	–	64,318	13,835	132,454	6,125	216,732
Additions through business combinations	16,268	293,160	6,348	–	–	315,776
Disposals	(6,434)	(20,315)	(1,217)	–	–	(27,966)
Derecognition	–	(74,338)	(1,013)	–	–	(75,351)
Transfers	804	24,113	3,030	(30,354)	(8,825)	(11,232)
Balance, December 31, 2018	$ 310,390	$ 3,082,413	$ 142,968	$ 193,548	$ 20,027	$ 3,749,346
Accumulated depreciation and impairment losses						
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	–	151,301	19,287	–	–	170,588
Disposals	–	(5,380)	(1,034)	–	–	(6,414)
Derecognition	–	(74,338)	(1,013)	–	–	(75,351)
Balance, December 31, 2018	$ –	$ 563,576	$ 92,024	$ –	$ –	$ 655,600
Carrying amounts						
Balance, December 31, 2017	$ 299,752	$ 2,303,482	$ 47,201	$ 91,448	$ 22,727	$ 2,764,610
Balance, December 31, 2018	310,390	2,518,837	50,944	193,548	20,027	3,093,746

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. The purchase price was settled in cash and is included in properties under development.

4. Property, plant and equipment (continued):

On May 11, 2018, Chartwell disposed of a property in Quebec, with a net book value of $10,809; 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. The purchase price was settled in cash and is included in properties under development.

On September 27, 2018, Chartwell acquired vacant land in Calgary, Alberta for $5,750. The purchase price was settled in cash and is included in properties under development.

During the year ended December 31, 2018, one property was transferred from properties under development to other components of PP&E.

Chartwell commenced the development of three projects during the year ended December 31, 2018 on previously owned lands and transferred $8,825 (2017 - $1,000) 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.

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

On May 3, 2017, Chartwell sold a property located in Quebec. The sale price for the property was $23,500, of which $2,500 is held in escrow to support the purchaser's rental income and certain renovation costs, with the balance settled in cash. Of the $2,500 held in escrow, $700 was received and has been reflected in gain on sale of assets for the year ended December 31, 2018. A former Chartwell director was an officer and director of the purchaser of this property.

Chartwell capitalized $5,218 of borrowing costs related to development projects under construction for the year ended December 31, 2018, at an average interest rate of 3.85% (2017 - $2,908 at an average interest rate of 3.74%) (note 23).

Since January 1, 2010, the cost and accumulated depreciation of PP&E has been reduced by $218,624 (2017 - $184,492) to remove fully amortized resident contracts.

Chartwell completes regular assessments of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E. No impairment provisions were recorded for the years ended December 31, 2018 and December 31, 2017.

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

5. Intangible assets:

	Goodwill	Licenses	Software[1]	Total
Cost				
Balance, December 31, 2016	$ 9,233	$ 44,334	$ 12,060	$ 65,627
Disposals	–	–	(3)	(3)
Transfers	–	–	223	223
Balance, December 31, 2017	9,233	44,334	12,280	65,847
Additions	–	–	8	8
Disposals	–	–	(14)	(14)
Derecognition	–	–	(395)	(395)
Transfers	–	–	11,232	11,232
Balance, December 31, 2018	$ 9,233	$ 44,334	$ 23,111	$ 76,678
Accumulated amortization and impairment losses				
Balance, December 31, 2016	$ –	$ –	$ 8,029	$ 8,029
Amortization	–	–	1,784	1,784
Balance, December 31, 2017	–	–	9,813	9,813
Disposals	–	–	14	14
Derecognition	–	–	(395)	(395)
Amortization	–	–	1,767	1,767
Balance, December 31, 2018	$ –	$ –	$ 11,171	$ 11,171
Carrying amounts				
Balance, December 31, 2017	$ 9,233	$ 44,334	$ 2,467	$ 56,034
Balance, December 31, 2018	9,233	44,334	11,940	65,507

[1] The 2018 balance includes $8,385 in software under development.

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

5. Intangible assets (continued):

Chartwell completed its annual impairment assessment of the carrying value of licenses and goodwill which are classified as intangible assets with indefinite useful lives. The impairment assessment on the carrying value of licenses was completed in November for the years ended December 31, 2018 and 2017 and, for goodwill, the impairment assessment was completed in December for the years ended December 31, 2018 and 2017. These intangible assets do not generate cash inflows that are largely independent of those of other assets and Chartwell completed the assessment of the recoverable amount of these intangible assets by comparing the fair value less costs to sell of the related CGUs containing these intangible assets determined using the direct capitalization method, to their carrying values. The direct capitalization method divides the estimated stabilized net operating income by an appropriate market capitalization rate. The key assumptions used in the impairment assessment include capitalization rates ranging from 8% -12% for licenses and for goodwill, the capitalization rates used ranged from 6.0% - 6.5%. The capitalization rates used were derived from a combination of third-party information and the observation of industry trends. Chartwell determined that the fair value less costs to sell exceeded the carrying value of the CGUs for the years ended December 31, 2018 and 2017.

6. Capital funding receivable:

The following table summarizes the capital funding receivable activity:

	2018	2017
Opening Balance	$ 54,511	$ 60,173
Capital funding applied to receivable	(5,980)	(5,662)
Closing Balance	$ 48,531	$ 54,511
Current	$ 6,317	$ 5,981
Non-current	42,214	48,530
	$ 48,531	$ 54,511

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

6. Capital funding receivable (continued):

The capital funding receivable of $48,531 (2017 - $54,511) represents the present value of the funding receivable from the Government of Ontario in respect of 15 long-term care properties. The weighted average remaining term of this funding is approximately 7.2 years. The discount rate used on the receivables above is based on applicable Ontario Government Bond Rates. The receipt of funding for the remaining terms of the agreements is subject to the condition that the homes continue to operate as long-term care communities for the remaining period. During 2018, capital funding receipts amounted to $8,555 (2017 - $8,555) of which $2,575 (2017 - $2,893) was recorded as interest income and $5,980 (2017 - $5,662) as a reduction of capital funding receivable.

7. Other assets:

	2018	2017
Prepaid expenses and deposits	$ 7,672	$ 17,785
Restricted cash	1,147	2,366
Other assets	9,604	7,572
	$ 18,423	$ 27,723
Current	$ 16,006	$ 24,860
Non-current	2,417	2,863
	$ 18,423	$ 27,723

Other assets include receivables of $2,619 recorded at their fair value, related to income guarantees provided by vendors of certain acquired properties (2017 - $2,659). Income guarantees are considered Level 3 in the fair value hierarchy. Fair value is determined by discounting the applicable expected future income from these properties. As a result, the fair value of the income guarantees is based on level 3 inputs. For the year ended December 31, 2018, $2,383 (2017 - $1,295) of income guarantees were collected. During the year ended December 31, 2018, Chartwell recorded an income guarantee receivable of $1,624 related to the acquisition of a property in Alberta (note 3).

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

8. Loans receivable:

	2018	2017
Mezzanine and other loans- current	$ 494	$ –
Mezzanine and other loans- non-current	14,411	6,753
	$ 14,905	$ 6,753

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

On November 23, 2018, Chartwell advanced a mezzanine loan of $4,183 for development of a 360 suite retirement residence in Quebec.

Mezzanine and other loans are due from Batimo, mature between October 2019 and November 2023, bear interest at rates ranging from 8% to 10%, and are secured by first and second charges on Batimo's interests in certain operating and development seniors' housing projects and vacant land, as well as by Batimo's corporate guarantee and contain certain cross-collateralization and cross-default provisions.

Loans receivable are measured at FVTPL and are considered Level 3 in the fair value hierarchy.

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

9. Joint arrangements:

As at December 31, 2018, the following are Chartwell's joint arrangements:

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 House Retirement Residence	1	Canada	50%	Joint operation
Oak Ridges Retirement Residence(3)	1	Canada	(3)	Joint venture(2)
Clair Hills Retirement Residence(3)	1	Canada	(3)	Joint venture(2)
The Sumach by Chartwell(4)	1	Canada	45%	Joint operation
Kingsbridge Retirement Community(4)	1	Canada	60%	Joint venture(2)
Pickering Project(4)	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) 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. Subsequent to the year end all class R Units were acquired by Chartwell. Refer to note 30 for more details.

(4) Properties under development

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

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

9. Joint arrangements (continued):

(a) At December 31, 2018, Chartwell has an interest in a number of joint operations, which have been accounted for under the proportionate consolidation method. The following is the summarized financial information in respect of the interests in these joint operations, which is included line by line in the consolidated financial statements at Chartwell's share:

	2018	2017
Current assets	$ 16,789	$ 9,954
Non-current assets	481,942	484,932
Total assets	$ 498,731	$ 494,886
Current liabilities	$ 32,458	$ 54,222
Non-current liabilities	335,029	308,640
Total liabilities	$ 367,487	$ 362,862
Total revenue	$ 57,415	$ 50,726
Total expenses	$ 40,184	$ 43,789

(b) The following tables summarize the information about Chartwell's investment in joint ventures, which have been accounted for under the equity method:

	2018	2017
Contributions to joint ventures	$ 28,057	$ 9,202
Distributions received from joint ventures	32,238	7,176

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

9. Joint arrangements (continued):

	2018	2017
Cash and cash equivalents	$ 10,328	$ 7,608
Trade and other receivables	4,586	3,481
Other assets	6,481	5,144
Current assets	21,395	16,233
PP&E and intangible assets	113,780	107,979
Total assets	$ 135,175	$ 124,212
Accounts payable and other liabilities	$ 1,943	$ 2,811
Mortgages payable - current	1,099	20,575
Current liabilities	3,042	23,386
Mortgages payable - non-current	97,268	63,262
Total liabilities	$ 100,310	$ 86,648
Net investment in joint ventures	$ 34,865	$ 37,564

	2018	2017
Revenue	$ 125,483	$ 124,768
Direct property operating expense	(76,831)	(75,380)
Lease expense	(37,833)	(34,700)
Finance cost	(2,017)	(2,256)
Depreciation of PPE	(6,622)	(7,586)
Change in fair value of financial instruments and foreign exchange gains (losses)	(671)	(137)
Other income (expense)	(27)	7
Chartwell's share of net income from joint ventures	$ 1,482	$ 4,716

9. Joint arrangements (continued):

Related party transactions occur between Chartwell and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts payable and receivable, and in management fee revenue, as applicable. As of December 31, 2018, $221 (2017 - $719) of Chartwell's accounts receivable and $8,926 (2017 - $7,360) of Chartwell's accounts payable relate to its investment in joint ventures. For the year ended December 31, 2018, $7,456 (2017 - $6,097) of Chartwell's management fees were 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, 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 renewals as long as the joint arrangement between Chartwell and Welltower is still in effect. As a result, Chartwell's 50% share of the landlords' lease receipts, $37,833 for the year ended December 31, 2018 (2017 - $34,700), 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.

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

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

10. Secured debt and credit facilities:

(a) Mortgages payable:

Mortgages payable are secured by first and second charges on specific properties and are measured at amortized cost. For more information about Chartwell's exposure to interest rates and liquidity risks, see note 18.

The mortgages payable as at December 31, 2018 are as follows:

	Regular principal payments	Principal due on maturity	Total debt	% of total debt
2019	$ 67,653	$ 115,341	$ 182,994	10
2020	67,602	123,107	190,709	10
2021	65,758	164,130	229,888	13
2022	61,077	227,943	289,020	16
2023	54,580	60,419	114,999	6
2024	44,877	146,289	191,166	11
2025	38,343	54,705	93,048	5
2026	36,759	33,830	70,589	4
2027	33,974	63,176	97,150	5
2028	36,538	161,889	198,427	11
2029	22,261	–	22,261	1
2030	20,883	–	20,883	1
2031	19,434	–	19,434	1
2032	17,884	9,654	27,538	1
Thereafter	53,547	35,251	88,798	5
	$ 641,170	$ 1,195,734	$ 1,836,904	100
Mark-to-market adjustments on assumed mortgages			$ 12,460	
Financing costs			(37,030)	
			$ 1,812,334	
Current			$ 183,649	
Non-current			1,628,685	
			$ 1,812,334	

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

10. Secured debt and credit facilities (continued):

	2018	2017
Mortgages at fixed rates:		
Mortgages (principal)	$1,805,176	$1,614,304
Interest rates	1.90% to 7.85%	1.90% to 7.85%
Weighted average interest rate	3.80%	3.86%
Mortgages at variable rates:		
Mortgages (principal)	$31,728	$15,631
Interest rates	Bankers' acceptance plus 1.55% to prime plus 2.10%	Bankers' acceptance plus 1.50% to prime plus 2.00%
Weighted average interest rate	4.10%	3.49%
Blended weighted average rate	3.80%	3.86%

Mortgages totaling $166,432 (2017 - $135,448) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2019 and 2021 are included under mortgages at fixed rates. The swaps have a fair value liability of $694 (2017 - nil) included in accounts payable and other accrued liabilities and fair value asset of $1,483 (2017 - $2,457) included in trade and other receivables.

10. Secured debt and credit facilities (continued):

(b) Credit facilities:

(i) 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 December 31, 2018, the maximum available borrowing capacity under the credit facility was $291,765, based on the security provided. Of this capacity, as at December 31, 2018, $5,998 (2017 - $4,655) has been allocated to support various letters of credit issued by Chartwell. At December 31, 2018, no amounts were drawn on this line.

(ii) 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 December 31, 2018, the maximum available borrowing capacity under the unsecured credit facility was $100,000. At December 31, 2018, nil amounts were drawn on this line. The unsecured credit facility matures on May 29, 2021.

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

11. Senior unsecured debentures:

	2018	2017
Senior unsecured debentures principal	$ 350,000	$ 200,000
Financing costs, net	(2,117)	(1,407)
Carrying value	$ 347,883	$ 198,593

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. Financing costs of $1,052 were incurred and are being amortized using the effective interest method (note 23). 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.

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 23). The debentures are redeemable at the option of Chartwell, at any time, subject to a yield maintenance payment if such redemption is prior to October 11, 2023.

Under the terms of the indentures, Chartwell is required to meet certain financial covenants. These covenants include required interest coverage ratio, indebtedness percentage ratio and unencumbered asset ratio.

12. Accounts payable and other liabilities:

	Note	2018	2017
Accounts payable and accrued liabilities		$ 144,281	$ 106,382
Resident deposits		3,500	2,932
Deferred revenue		1,505	571
Deferred Trust Units	(a)	13,313	14,186
Restricted Trust Units	(b)	4,755	6,547
EUPP option component	(c)	10,398	13,363
		$ 177,752	$ 143,981

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

12. Accounts payable and other liabilities (continued):

(a) DTU Plan:

Chartwell provides a DTU Plan for its independent directors. The plan entitles directors, at their option, to receive all, 75%, 50% or 25% of their directors' fees in the form of DTU. Chartwell matches, on a one-on-one basis, the number of Trust Units elected to be received by directors. The number awarded is based on the fair market value of Chartwell Trust Units, as defined in the plan, on the award date.

The DTUs earn additional DTUs related to distributions that would otherwise have been paid if Trust Units, as opposed to DTUs, had been issued on the date of the grant. The number of DTUs issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. DTUs cannot be distributed to the directors until after they retire from the board.

As described in note 2(j)(iii), the value of issued units is recorded as a liability on the consolidated balance sheets. DTU values are initially calculated based on the grant date fair value. Fair value is determined using the market prices for listed Trust Units since there is a one-for-one conversion feature. The liability is remeasured to fair value at each reporting date until the liability is settled. The liability is released after settlement upon retirement of the director. The market price of Trust Units as at December 31, 2018 was $13.67 (2017 - $16.26).

The following table summarizes the DTU activity:

	Units outstanding	Amount
Balance, December 31, 2016	928,618	$ 13,620
Units granted	66,994	1,039
Change in fair value and distributions	31,727	1,939
DTU settled by the issuance of Trust Units	(154,740)	(2,412)
Balance, December 31, 2017	872,599	14,186
Units granted	65,830	975
Change in fair value and distributions	35,634	(1,848)
Balance, December 31, 2018	974,063	$ 13,313

12. Accounts payable and other liabilities (continued):

The non-cash compensation expense attributable to DTUs granted of $975 for the year ended December 31, 2018 (2017 - $1,039) is included in general, administrative and trust expenses.

(b) RTU Plan:

Under the terms of the RTU Plan, qualified employees are granted notional Trust Units on an annual basis which will vest three years after the date of any grant and will be paid out in cash ("RTU payout"). The notional Trust Units earn additional notional Trust Units related to distributions that would otherwise have been paid if Trust Units had been issued on the date of the grant. The number of notional Trust Units issued in regard to distributions is based on the fair market value of Trust Units, as defined in the plan, on the date distributions are paid. The value of outstanding RTUs is recognized as compensation expense over the vesting period, with the corresponding amount recorded as a liability on the consolidated balance sheets. The liability is remeasured to fair value at each reporting date until the liability is settled. The amount of RTU payout to certain participants is also dependent on the extent to which Chartwell has achieved certain targets over a three-year period.

During the year ended December 31, 2018, 247,225 notional Trust Units were granted (2017 - 208,503), 17,908 notional Trust units were cancelled (2017 - 19,078), 25,106 notional Trust units were issued in regard to distributions (2017 - 21,902), and 204,433 notional Trust units vested and were paid out (2017 - 181,678). At December 31, 2018, 576,185 notional Trust Units remained outstanding (2017 - 526,195).

The compensation expense attributable to the RTU Plan of $1,982 for the year ended December 31, 2018 (2017 - $4,334) is included in general, administrative and trust expenses.

(c) EUPP option component:

The description of the EUPP is included in note 16(b). The fair value of the EUPP option component 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.

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

12. Accounts payable and other liabilities (continued):

The fair value of the EUPP option component 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:

	2018	2017
Expected volatility	20.23% - 25.23%	10.99% - 15.99%
Risk-free rate	2.32% - 2.60%	2.30% - 2.55%
Distribution yield	4.61% - 5.18%	3.73% - 3.97%

13. Reconciliation of changes in liabilities arising from financing activities:

	Mortgages payable	Credit facilities	Senior unsecured debentures	Total
Balance, December 31, 2016	$ 1,641,772	$ 172,000	$ –	$ 1,813,772
Proceeds from financing	311,316	–	200,000	511,316
Repayments	(299,227)	(172,000)	–	(471,227)
Scheduled principal payments	(57,856)	–	–	(57,856)
Financing costs paid[(1)]	(13,374)	–	(1,538)	(14,912)
Assumed on acquisition	37,060	–	–	37,060
Held for sale classification	(6,061)	–	–	(6,061)
Amortization of financing costs and mark to market adjustments[(1)]	702	–	131	833
Balance, December 31, 2017	1,614,332	–	198,593	1,812,925
Proceeds from financing	239,220	–	150,000	389,220
Repayments	(69,110)	–	–	(69,110)
Scheduled principal payments	(63,833)	–	–	(63,833)
Financing costs paid[(1)]	(9,462)	–	(1,085)	(10,547)
Assumed on acquisition	100,676	–	–	100,676
Amortization of financing costs and mark to market adjustments on assumed mortgages[(1)]	511	–	375	886
Balance, December 31, 2018	$ 1,812,334	$ –	$ 347,883	$ 2,160,217

[(1)] Mortgages payable includes credit facilities related costs of $496 (2017 - $2,727) in relation to financing costs paid and $857 (2017 - $1,381) in relation to amortization of financing costs.

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

14. Asset held for sale and related liabilities:

There were no assets classified as held for sale at December 31, 2018. The asset held for sale at December 31, 2017 with a net book value of $10,809 was disposed on May 11, 2018 for gross proceeds of $13,515 (note 22).

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

	2018	2017
Assets:		
Cash and cash equivalents	$ –	$ 2
Trade and other receivables	–	(133)
Other assets	–	29
PP&E, net	–	10,215
	$ –	$ 10,113
Liabilities:		
Accounts payable and other liabilities	$ –	$ 580
Mortgages payable	–	6,061
	$ –	$ 6,641

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. Chartwell has elected to designate Class B Units as FVTPL. Fair value is determined by using market prices for listed Trust Units since there is a one-for-one exchange feature for each Class B Unit into a Trust Unit. Class B Units are considered Level 2 in the fair value hierarchy.

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

15. Class B Units (continued):

Holders of the Class B Units are entitled to receive distributions equal to those provided to holders of Trust Units. These distributions are included in finance costs in the consolidated statements of net income and comprehensive income.

	Units outstanding	Amount
Balance, December 31, 2016	1,627,173	$ 23,871
Exchange of Class B Units into Trust Units	(10,000)	(157)
Change in fair value	–	2,594
Class B Units issued (note 4)	31,565	500
Balance, December 31, 2017	1,648,738	26,808
Exchange of Class B Units into Trust Units	(6,000)	(87)
Change in fair value	–	(4,265)
Balance, December 31, 2018	1,642,738	$ 22,456

16. Unitholders' equity and EUPP:

(a) Trust Units:

Chartwell is authorized to issue an unlimited number of Trust Units.

Trust Units are redeemable at any time, in whole or in part, on demand by holders. Upon receipt of a redemption notice by Chartwell, all rights to and under Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

(i) 90% of the "market price" of the units on the principal market on which the units are quoted for trading during the 10-trading-day period ending immediately prior to the date on which the units were surrendered for redemption; and

(ii) 100% of the "closing market price" on the principal market on which the units are listed for trading on the redemption date.

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

16. Unitholders' equity and EUPP (continued):

The aggregate redemption price payable by Chartwell in respect of any Trust Units surrendered for redemption during any calendar month shall not exceed $50 unless waived at the discretion of Trustees and satisfied by way of cash payment in Canadian dollars within 30 days after the end of the calendar month in which the units were tendered for redemption. To the extent the redemption price payable in respect of Trust Units surrendered for redemption exceeds $50 in any given month, such excess may be satisfied by way of a distribution in species of assets held by Chartwell.

The following Trust Units are issued and outstanding:

	Number of Trust 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 in 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	1,460,800	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 (note 25)	–	6,149
Balance, December 31, 2018	210,991,550	$ 2,285,736

On November 24, 2017, Chartwell completed a public offering of 17,732,000 Trust Units at $15.20 per Trust Unit for gross proceeds of $269,526. Underwriting commission and other offering related costs amounted to $11,311 including the $267 additional costs recorded during the year ended December 31, 2018.

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

16. Unitholders' equity and EUPP (continued):

(b) Trust Units issued under EUPP:

Chartwell has established an EUPP, under which the eligible participants may subscribe for Trust Units for a purchase price equal to the weighted average trading price of the units for 20 trading days preceding the date of issuance. Participants are required to pay interest on the unpaid balance of the purchase price at a rate not less than the rate prescribed under the Income Tax Act (Canada) at the time Trust Units under the EUPP are issued. All distributions on Trust Units under the EUPP are applied as payments, first of interest and then toward reduction of the principal of the EUPP receivable. Trust Units issued under the EUPP are held as security for the outstanding EUPP receivable. Participants may prepay the principal at their discretion and receive the Trust Units. If a participant elects to withdraw from the plan without paying the balance of the EUPP receivable in full, Chartwell may elect to sell Trust Units issued under the EUPP in satisfaction of the outstanding EUPP receivable. Chartwell's recourse is limited to Trust Units it holds as security. On May 15, 2014, the EUPP was amended, such that the period for payment for the exercise of terms of the EUPP awards was extended from 10 to 20 years, for EUPP awards issued before April 1, 2014. Subsequent EUPP awards are limited to senior executives, continue to have 10-year terms and vest immediately.

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the EUPP, of which 2,688,718 were available to be issued at December 31, 2018.

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	(43,117)	(469)
Balance, December 31, 2018	1,523,159	$ 17,519

16. Unitholders' equity and EUPP (continued):

The non-cash compensation expense attributable to the EUPP of $413 for the year ended December 31, 2018 (2017 - $335) is included in general, administrative and trust expenses with a corresponding amount included in accounts payable and other liabilities. Trust Units issued under EUPP and EUPP receivable are recorded in unitholders' equity.

(c) DRIP:

Chartwell has established a DRIP for its unitholders, which allows participants to reinvest their monthly cash distributions in additional Trust Units at an effective discount of 3%.

17. 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 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.

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

17. Segmented information (continued):

2018	Retirement Operations	Long-Term Care Operations	Segment total	Other[2]	Subtotal	Recon-ciliation	Total
Revenue:							
Resident	$ 705,021	$ 234,342	$ 939,363	$ –	$ 939,363	$ (125,101)	$ 814,262
Management and other fees	–	–	–	10,708	10,708	–	10,708
Lease revenue from joint ventures	–	–	–	–	–	37,833	37,833
Interest income	–	–	–	4,233	4,233	(382)	3,851
	705,021	234,342	939,363	14,941	954,304	(87,650)	866,654
Expenses (income):							
Direct property operating	431,070	203,600	634,670	–	634,670	(76,831)	557,839
Adjusted net operating income[1]	273,951	30,742	304,693				
Depreciation of PP&E							170,588
Amortization of intangible assets							1,767
Share of net income from joint ventures							(1,482)
General, administrative and trust							43,890
Other expense (income)							(12,234)
Finance costs							76,778
Change in fair values of financial instruments and foreign exchange losses (gains)							(8,219)
							271,088
Income before income taxes							37,727
Income tax benefit (expense):							
Current							(63)
Deferred							(19,145)
							(19,208)
Net income							$ 18,519
Expenditures for non-current assets:							
Acquisition of properties	$ 315,776	$ –	$ 315,776	$ –	$ 315,776	$ –	$ 315,776
Capital additions	189,183	11,225	200,408	28,581	228,989	(12,257)	216,732

[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.

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

17. Segmented information (continued):

2017	Retirement Operations	Long-Term Care Operations	Segment total	Other[2]	Subtotal	Recon-ciliation	Total
Revenue:							
Resident	$ 649,989	$ 227,427	$ 877,416	$ –	$ 877,416	$ (124,641)	$ 752,775
Management and other fees	–	–	–	8,861	8,861	–	8,861
Lease revenue from joint ventures	–	–	–	–		34,700	34,700
Interest income	–	–	–	4,085	4,085	(127)	3,958
	649,989	227,427	877,416	12,946	890,362	(90,068)	800,294
Expenses (income):							
Direct property operating	396,493	199,263	595,756	–	595,756	(75,380)	520,376
Adjusted net operating income[1]	253,496	28,164	281,660				
Depreciation of PP&E							151,565
Amortization of intangible assets							1,784
Share of net income from joint ventures							(4,716)
General, administrative and trust							38,007
Other expense							6,176
Finance costs							71,122
Change in fair values of financial instruments and foreign exchange losses							2,987
							266,925
Income before income taxes							12,993
Income tax benefit (expense):							
Current							(15)
Deferred							104
							89
Net income							$ 13,082
Expenditures for non-current assets:							
Acquisition of properties	$ 209,627	$ –	$ 209,627	$ –	$ 209,627	$ –	$ 209,627
Capital additions	160,713	6,043	166,756	15,390	182,146	(14,914)	167,232

[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.

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

17. Segmented information (continued):

2018	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon-ciliation	Total
Total assets	$ 3,047,776	$ 250,564	$ 3,298,340	$ 112,332	$ 3,410,672	$ (91,824)	$ 3,318,848
Total liabilities	$ 1,882,199	$ 155,051	$ 2,037,250	$ 439,902	$ 2,477,152	$ (91,824)	$ 2,385,328

2017	Retirement Operations	Long-Term Care Operations	Segment total	Other	Subtotal	Recon-ciliation	Total
Total assets	$ 2,744,034	$ 256,040	$ 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

18. Financial instruments and financial risk management:

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

The carrying amounts and fair values of financial instruments, excluding loans receivable, interest rate swaps, liabilities related to Class B Units, income guarantees and deferred consideration on business combinations, 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 amounts of these assets and liabilities are a reasonable approximation of fair value.

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Financial liabilities recorded at amortized cost:				
Mortgage payable related to assets held for sale	$ –	$ –	$ 6,061	$ 6,061
Mortgages payable	1,812,334	1,882,491	1,614,332	1,680,549
Senior unsecured debentures	347,883	349,198	198,593	201,478

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

Fair value represents management's estimates of the fair market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective, 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 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 outflows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2018, the mortgages payable were discounted using rates between 2.86% and 4.38% (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 values of the credit facilities approximates their carrying values and is considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

The fair value of senior unsecured debentures are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2018, senior unsecured debentures were discounted using a rate of 4.03% (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.

(b) Financial risk management objectives and policies:

In the normal course of business, Chartwell is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives and unitholder returns. Chartwell is exposed to financial instrument risks that arise from the fluctuation of interest rates, the credit quality of its residents and borrowers pursuant to mezzanine and other loans.

The Board of Trustees has overall responsibility for the establishment and oversight of Chartwell's risk management framework. Management is responsible for developing and monitoring Chartwell's risk management policies and reports regularly to the Board of Trustees on its activities.

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

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2017.

These financial instrument risks are managed as follows:

(i) Credit risk:

Chartwell is exposed to credit risk arising from the possibility that parties responsible for payment of fees or the borrowers of mezzanine and other loans may experience financial difficulty and be unable to fulfill their contractual obligations. Chartwell has two significant categories of receivables: resident receivables and loans receivable.

Chartwell regularly monitors the credit risk exposure and takes steps to mitigate the likelihood that these exposures will result in an actual loss.

Chartwell's exposure to credit risk from resident receivables is influenced mainly by the individual characteristics of each resident, the demographics of its resident base and general economic conditions. Due to the nature of Chartwell's business and geographic spread of its resident base, there is no significant concentration of receivables from residents.

In the event that Chartwell's borrowers face financial difficulty and are not able to meet their commitments, Chartwell could suffer a loss of either interest or principal or both on the loans it has advanced, since other lenders will rank ahead of Chartwell in any recovery. To decrease the credit risk exposure, the loans are secured by charges of the borrowers' interests in various real estate projects, and by corporate guarantees.

Generally, the carrying amount on the consolidated balance sheets of Chartwell's financial assets exposed to credit risk, net of applicable loss allowances, represents Chartwell's maximum exposure to credit risk. Chartwell limits its exposure to credit risk related to derivatives by transactions with counterparties that are stable and of high credit quality.

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

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. At December 31, 2018, outstanding residents receivables were $1,638 (2017 - $1,397), net of ECL of $1,301 (2017 - $1,238).

(ii) Liquidity risk:

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to Chartwell to fund its growth program and refinance or meet its payment obligations as they arise.

Chartwell's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of property improvements, leasing costs and distributions to unitholders, and property development and acquisition funding requirements.

As at December 31, 2018, current liabilities totalled $371,894, exceeding current assets of $65,688, resulting in a working capital deficiency of $306,206. Current liabilities includes an amount of $183,649 of current mortgages payable, comprised of $115,341 related to maturing balances which are expected to be renewed on maturity, $67,653 related to regular principal payments and $655 related to the balance of unamortized mark-to-market adjustments net of unamortized financing costs. These and other contractual obligations and contingencies, including those related to agreements with Batimo, are disclosed in note 26. Chartwell expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from property operations, (ii) property specific mortgages, and (iii) secured and unsecured credit facilities, under which $385,767 was available and undrawn at December 31, 2018 (note 10(b)). In addition, subject to market conditions, Chartwell may seek to raise funding through new senior unsecured debentures or equity financing. The particular features and quality of the underlying assets and the debt and equity market parameters existing at the time of financing may impact the ability for financing.

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

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to Chartwell or on any terms at all. Management mitigates this risk by staggering debt maturities and through the use of programs, such as Canadian Mortgage and Housing Corporation's ("CMHC") insured mortgages.

On December 5, 2015, Chartwell entered into a large borrower agreement ("LBA") with CMHC. The LBA provides among other things, the cross-collateralization of mortgage loans for Chartwell's largest CMHC insured lenders, and contains certain financial and operating covenants.

There is also a risk that the credit facilities will not be renewed or that the senior unsecured debentures may not be refinanced on terms and conditions acceptable to Chartwell or on any terms at all.

Chartwell holds licenses related to each of its long-term care communities and in certain cases, retirement communities. Holders of these licenses receive funding from the relevant provincial government. During the year ended December 31, 2018, Chartwell received $197,365 (2017 - $193,247) in funding in respect of these licenses, which has been recorded as resident revenue, interest income and capital funding receivable, as applicable.

(iii) Market risk:

Chartwell is exposed to market risk, which is the risk arising from its financial instruments, principally related to interest rates and equity prices.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Chartwell is exposed to interest rate risk on its floating-rate debt on an ongoing basis and its fixed-rate debt upon renewal. To mitigate interest rate risk, Chartwell fixes or otherwise limits the interest rate on its long-term debt to the extent possible on renewal. It may also enter into derivative financial instruments from time to time to mitigate interest rate risk. Generally, Chartwell fixes the term of long-term debt within a range of 5 to 20 years. To limit exposure to the risk of higher interest rates at renewal, Chartwell spreads the maturities of its fixed-rate, long-term debt over time.

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

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

At December 31, 2018, Chartwell's interest-bearing financial instruments were as follows:

	Carrying amount 2018	Carrying amount 2017
Fixed-rate financial liabilities	$ 2,155,176	$ 1,814,304
Variable-rate financial liabilities	$ 31,728	$ 15,631

An increase/decrease of 100-basis-points in interest rates at December 31, 2018 for the variable-rate financial instruments would have decreased/increased income before income tax for the year by $317.

19. Capital structure financial policies:

Chartwell's primary objectives in managing capital are:

(a) to ensure that Chartwell has sufficient capital to execute on its strategic objectives, including targeted investments in maintenance and improvements of its property portfolio, development and acquisitions activities;

(b) to achieve the lowest overall cost of capital consistent with the appropriate mix of capital elements while ensuring that Chartwell complies with financial and non-financial covenants included in debt agreements; and

(c) to provide growing distributions to unitholders.

In managing its capital structure, Chartwell takes into consideration various factors, including changes in economic conditions, growth of its business and risk characteristics of the underlying assets.

Management defines capital as Chartwell's total unitholders' equity, Class B Units and long-term debt. Chartwell's long-term debt includes mortgages payable, senior unsecured debentures and borrowings under its credit facilities.

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

19. Capital structure financial policies (continued):

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

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

GBV means, at any time, the consolidated book value of the assets of Chartwell, as shown on Chartwell's most recent consolidated balance sheet (or if approved by a majority of the Independent Directors of Master LP at any time, the appraised value thereof), adjusted for (i) Chartwell's line-by-line share of its joint ventures, (ii) plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration in respect of any property acquired or to be acquired, (iii) plus the difference between the GBV of assets under Canadian generally accepted accounting principles and IFRS at January 1, 2010, Chartwell's effective IFRS transition date, and (iv) plus the related acquisition costs in respect of completed property acquisitions that were expensed in the period incurred.

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

The following are the Indebtedness ratios at December 31, 2018 and 2017:

	2018	2017	Increase (decrease)
Indebtedness ratio	48.3%	44.8%	3.5%

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

19. Capital structure financial policies (continued):

Chartwell's capital management is conducted in accordance with policies stated under the Declaration of Trust and requirements from certain of its lenders. Under the terms of Chartwell's loan agreements with these lenders, Chartwell is required to meet certain financial and non-financial covenants. There have been no changes in Chartwell's capital management strategy during the year.

20. Revenue:

	2018
Lease revenue[1]	$ 322,914
Services revenue[2]	529,181
Interest income	3,851
Management and other fees	10,708
Total revenue	$ 866,654

[1] Includes resident lease revenue and lease revenue from the joint venture partners.
[2] Includes property services element in accordance with IFRS 15 and long-term care services revenue.

21. Personnel expenses:

The analysis of employee benefits expense for the years ended December 31, 2018 and 2017, included in the consolidated statements of net income and comprehensive income under direct operating expenses and general, administrative and trust expenses, is as follows:

	2018	2017
Salaries and wages	$ 410,017	$ 379,905
Post-employment benefits (defined contribution plans)	6,229	5,867
Unit-based compensation	3,370	5,708
	$ 419,616	$ 391,480

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

22. Other expense (income):

	2018	2017
Property lease expense	$ 399	$ 395
Lease termination costs (a)	1,806	–
Transaction costs arising on acquisitions and dispositions	3,873	7,540
Other expense	6,078	7,935
Gain on sale of assets (b)	(17,519)	(697)
Other income	(793)	(1,062)
Other income	(18,312)	(1,759)
Other expense (income)	$ (12,234)	$ 6,176

(a) Lease termination costs:

In connection with its development of the new headquarters Chartwell provided a notice of termination of its current head office lease and incurred a $1,806 termination payment.

(b) Gain on sale of assets:

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.

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. This asset was classified as an asset held for sale on December 31, 2017.

For the year ended December 31, 2018 Chartwell completed other disposals of assets and recorded a gain on sale of assets of $1,634.

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

22. Other expense (income) (continued):

On May 3, 2017, Chartwell sold a property located in Quebec. The sale price for the property was $23,500, of which $2,500 was held in escrow to support the purchaser's rental income and certain renovation costs, with the balance settled in cash. Of the $2,500 held in escrow, $700 was received and has been reflected in gain on sale of assets for the year ended December 31, 2018. A former Chartwell director was an officer and director of the purchaser of this property.

23. Finance costs:

	2018	2017
Contractual interest expense on mortgages	$ 65,438	$ 63,223
Interest expense on senior unsecured debentures	11,881	4,274
Credit facility and other interest expense	2,827	4,743
	80,146	72,240
Interest capitalized to properties under development	(5,218)	(2,908)
Amortization of financing costs and mark-to-market adjustments on assumed mortgages and senior unsecured debentures	886	835
Distributions on Class B Units recorded as interest expense	964	955
Total finance costs	$ 76,778	$ 71,122

24. Changes in fair values of financial instruments and foreign exchange losses (gains):

	2018	2017
Change in fair value of interest rate swaps	$ 1,668	$ (2,739)
Foreign exchange losses (gains)	(383)	271
Change in fair value of EUPP option component	(2,757)	2,670
Change in fair value of Class B Units	(4,265)	2,595
Change in fair value of DTUs	(1,848)	1,939
Change in fair value of deferred purchase consideration	85	113
Change in fair value of income guarantees	(719)	(1,862)
Change in fair values of financial instruments and foreign exchange losses (gains)	$ (8,219)	$ 2,987

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

25. Income taxes:

For the year ended December 31, 2018, Chartwell recorded current income tax expense of $63 (2017 - $15) and deferred tax expense of $19,145 (2017 - $104 recovery). The current income tax expense relates to a corporate subsidiary. The deferred income tax expense is primarily related to adjustments to deferred tax balances as a result of the settlement of a Canada Revenue Agency ("CRA") audit net of the recognition of previously unrecognized deductible timing differences.

The income tax expense (benefit) - in the consolidated statements of comprehensive income represents an effective tax rate different than the Canadian tax rate applicable to trusts on undistributed income of 53.53% (2017 - 53.53%). The differences for the years ended December 31 are as follows:

	2018	2017
Income before income taxes	$ 37,727	$ 12,993
Income tax expense at Canadian tax rate	$ 20,195	$ 6,955
Non-deductible and non-taxable items	(502)	3,161
Recognition of previously unrecognized tax benefits	(21,213)	(14,663)
Effect of tax rates in corporate subsidiary	–	56
Non-deductible fair value changes	(4,748)	3,915
Adjustment to deferred tax balances	25,372	–
Other	104	487
Income tax expense (benefit)	$ 19,208	$ (89)

During the year ended December 31, 2018, Chartwell settled with the CRA on an audit matter for the 2013 to 2015 taxation years. The settlement resulted in additional taxable income in the 2013 to 2017 taxation years that was offset by additional tax depreciation claimed for PP&E and the utilization of non-capital losses available for carryforward. As a result, Chartwell recognized a deferred income tax expense of $25,372 in the year ended December 31, 2018 due to a decrease of $43,461 in the deductible temporary differences between the accounting and tax basis of property, plant and equipment and a decrease of $3,937 in non-capital losses available for carryforward.

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

25. Income taxes (continued):

Movement in deferred tax balances during the year is as follows:

	Balance, January 1, 2018	Recognized in net income (loss)	Recognized in unitholders' equity	Balance, December 31, 2018
Property, plant and equipment	$ 27,890	$ (32,841)	$ –	$ (4,951)
Intangible assets	(14,381)	(398)	–	(14,779)
Losses available for carryforward	7,899	8,426	–	16,325
Other	5,218	(15,545)	143	(10,184)
Deferred tax asset (liability)	26,626	(40,358)	143	(13,589)
Deferred tax assets recognized/(not recognized)	(28,040)	21,213	6,006	(821)
Net deferred tax liability	$ (1,414)	$ (19,145)	$ 6,149	$ (14,410)

	Balance, January 1, 2017	Recognized in net income (loss)	Recognized in unitholders' equity	Balance, December 31, 2017
Property, plant and equipment	$ 43,273	$ (15,383)	$ –	$ 27,890
Intangible assets	(13,946)	(435)	–	(14,381)
Losses available for carryforward	7,367	532	–	7,899
Other	(1,515)	727	6,006	5,218
Deferred tax asset (liability)	35,179	(14,559)	6,006	26,626
Deferred tax assets recognized/(not recognized)	(36,697)	14,663	(6,006)	(28,040)
Net deferred tax liability	$ (1,518)	$ 104	$ –	$ (1,414)

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

25. Income taxes (continued):

Deferred tax assets have not been recognized for the following:

	2018	2017
Deductible temporary differences	$ 269	$ 17,791
Non-capital losses carried forward	–	13,130
Net capital losses carried forward	2,576	8,176
	$ 2,845	$ 39,097

The capital losses carried forward and deductible temporary differences do not expire under current legislation. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

Chartwell also has non-capital losses carried forward of $31,670.

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

26. Commitments and contingencies:

Chartwell's maturities on major financial liabilities as at December 31, 2018 are detailed in the following table:

	Note	Total	2019	2020	2021	2022	2023	Thereafter
Mortgages payable	10(a)	$ 1,836,904	$ 182,994	$ 190,709	$ 229,888	$ 289,020	$ 114,999	$ 829,294
Senior unsecured debentures	11	350,000	–	–	–	–	200,000	150,000
Accounts payable and accrued liabilities	12	144,281	144,281	–	–	–	–	–
Distributions payable		10,493	10,493	–	–	–	–	–
Operating leases	26(a)(i)	2,327	1,302	136	139	155	155	440
Land leases	26(a)(ii)	24,943	376	376	376	376	376	23,063
Total maturities		$ 2,368,948	$ 339,446	$ 191,221	$ 230,403	$ 289,551	$ 315,530	$ 1,002,797

26. Commitments and contingencies (continued):

(a) Lease obligations:

(i) Operating leases:

Chartwell has operating leases on office spaces in Canada that expire on various dates up to October 31, 2026. In aggregate, annual payments on these leases vary from $30 to $1,035 over the remaining terms of the leases.

(ii) Land leases:

Chartwell has commitments related to three properties located on lands subject to long-term land leases. A land lease on a property in Alberta, Canada expires on July 17, 2061 and has an option to extend for 15 years thereafter. Annual payments on this lease vary from $138 to $394. A land lease on a property in Ontario expires on August 31, 2044. Annual payments on this lease vary from $100 to $120. A land lease on another property in Ontario expires on May 31, 2048 with annual payments of $138.

For the above leases, legal title does not pass to Chartwell. Chartwell has determined that substantially all of the risks and rewards incidental to ownership are still with the lessor and, as such, these leases are operating leases.

(b) Other:

On April 23, 2018, Chartwell entered into a forward purchase agreement to acquire a 256 suite residence conditional upon completion of its development which is expected in Q4 2019 for a contractual purchase price of $120,000 (note 3).

Under Chartwell's agreements with Batimo, upon achievement of certain conditions, Batimo may require Chartwell to acquire an 85% interest in their development properties in which Chartwell participates as the operations manager and, in some cases, as the mezzanine lender, at 99% of Fair Market Value ("FMV"), as defined in the agreements ("Batimo Option"). Batimo'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. At December 31, 2018, nine projects with 2,744 suites are subject to this arrangement. Under Chartwell's agreement with Welltower, Welltower may participate as Chartwell's equal partner in the acquisition of interests in three of these projects.

26. Commitments and contingencies (continued):

Chartwell has entered into various construction contracts related to its development projects. As at December 31, 2018, the remaining commitments under these contracts amounted to approximately $76,019 (2017 - $110,607).

(c) Letters of credit:

As at December 31, 2018, Chartwell was contingently liable for letters of credit in the amount of $5,998 (2017 - $4,655).

(d) Guarantees:

As a result of the purchasers' assumption of certain mortgages on two properties sold in 2014, Chartwell remains a guarantor of these mortgages. As at December 31, 2018, outstanding balance on these mortgages was $2,550 (2017 - $19,436). The purchasers have indemnified Chartwell with respect to these guarantees.

Chartwell, with its partners, has jointly and severally guaranteed loans on three properties, which are 50% owned by Chartwell, two development properties owned 60% and 45% by Chartwell, respectively, and two properties, which are 85% owned by Chartwell, to a maximum amount of $239,397. As at December 31, 2018, outstanding balances on these mortgages totalled $161,145 ($72,073 of which represents partners' share).

(e) Litigation and claims:

In the ordinary course of business activities, Chartwell may be contingently liable for litigation and claims from, among others, residents, partners and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but cannot provide absolute assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of Chartwell.

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

27. Key management personnel compensation:

The remuneration of key management personnel of Chartwell during the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Officers' and directors' compensation	$ 5,191	$ 4,937
Post-employment benefits	69	54
Other long-term benefits	1,623	2,816
Unit-based payments	328	302

Chartwell management has a senior executive committee, comprising officers of Chartwell, with the responsibility to provide strategic direction and oversight to Chartwell. The above table includes the total compensation of members of the senior executive committee and directors of Chartwell.

28. Expenses by nature:

	2018	2017
Wages and benefits	$ 419,616	$ 391,480
Food and supplies	59,108	55,513
Realty taxes	28,412	26,863
Utilities	28,037	28,103
Other	66,556	56,424
	$ 601,729	$ 558,383
Included in the consolidated statements of comprehensive income:		
Direct property operating	$ 557,839	$ 520,376
General, administrative and trust	43,890	38,007
	$ 601,729	$ 558,383

29. Comparative consolidated statements:

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2018 consolidated financial statements.

30. Subsequent events:

On January 31 2019, Chartwell acquired all outstanding Class R Units of the limited partnership holding for the Clair Hills Retirement Residence for a purchase price of $9,695.

On February 1, 2019, Chartwell acquired all outstanding Class R units of the limited partnership for Oak Ridges Retirement Residence for a purchase price of $374.

On March 1, 2019, Chartwell announced a 2% increase in the monthly distributions from $0.049 per unit ($0.5880 per unit on an annualized basis) to $0.050 per unit ($0.60 on an annualized basis) effective for the March 31, 2019 distribution payable on April 15, 2019.