



**CHARTwell**<sup>®</sup>  
retirement residences

making people's  
lives **BETTER**<sup>®</sup>



# 2016

ANNUAL REPORT

Guided by our Vision, Mission and Values of Respect, we focus on providing exceptional services and quality care to our residents which we believe will translate into sustainable long-term value creation for our unitholders.

## OUR vision making people's lives **BETTER**<sup>®</sup>

### OUR mission

To provide a happier, healthier and more fulfilling life experience for seniors

To provide peace of mind for our residents' loved ones

To attract and retain employees who care about making a difference in our residents' lives

### OUR values **respect**

**Respect** We honour and celebrate seniors

**Empathy** We believe compassion is contagious

**Service Excellence** We believe in providing excellence in customer service

**Performance** We believe in delivering and rewarding results

**Education** We believe in lifelong learning

**Commitment** We value commitment to the Chartwell family

**Trust** We believe in keeping our promises and doing the right thing

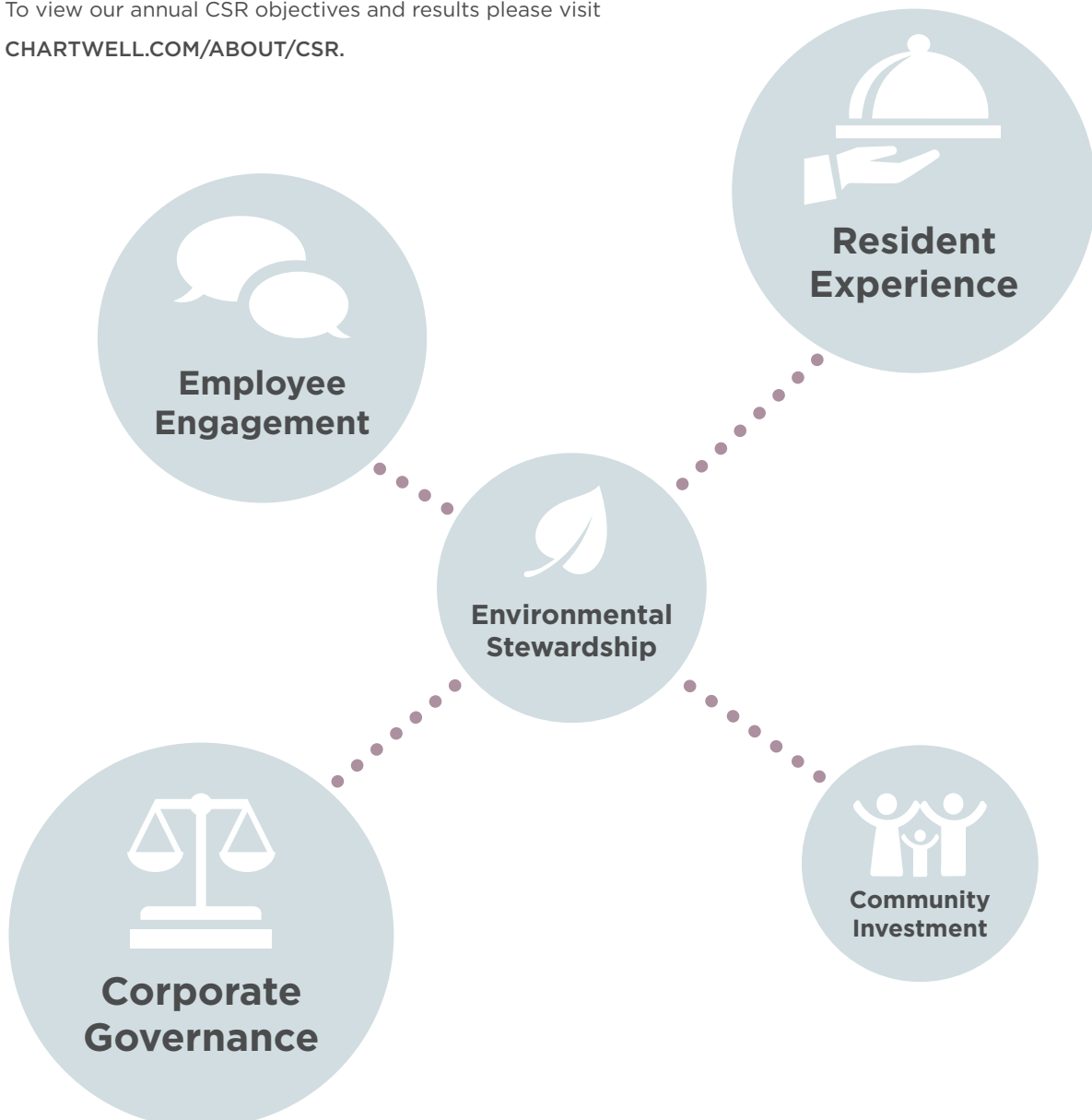
# Corporate Social Responsibility (CSR) at Chartwell

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## **“TRUST THROUGH ACCOUNTABILITY”**

We are proud to report the important progress we have made in 2016 on the five key areas by which we benchmark our CSR: Employee Engagement, Resident Experience, Environmental Stewardship, Corporate Governance and Community Investment.

To view our annual CSR objectives and results please visit [CHARTWELL.COM/ABOUT/CSR](http://CHARTWELL.COM/ABOUT/CSR).



# Message from the President & CEO\*



Dear fellow unitholders,

There is no better way to begin my annual update to you, than to recognize the outstanding success Chartwell achieved in 2016. As a leadership team, we set a course a number of years ago to enhance our commitment to customer service and employee engagement, to drive better results from our operating properties and to reduce our debt, while still growing and improving our property portfolio.

## **I'M PLEASED TO REPORT THAT OUR CONSISTENT FOCUS ON THESE AREAS PRODUCED EXCELLENT RESULTS IN 2016 INCLUDING:**

- Increasing resident satisfaction and employee engagement scores;
- Exceptional same property net operating income growth;
- Historically high occupancies;
- Significantly improved credit metrics;
- Improved quality of our property portfolio through strategic capital investments into our existing properties and development and acquisitions of newer, high-quality properties in strong markets;
- Innovative marketing and sales strategies including ongoing improvements to our Contact Centre processes;
- Development of a program to welcome new residents into our Chartwell family and to smooth their transition into their new home;
- Expanded technology solutions to offer our residences efficient corporate support services; and
- Creation of new and continuous improvement to programs of training, development and recognition of our employees.

If there is one thing I want you to know about Chartwell, it is that our Vision of ***Making People's Lives BETTER*** truly guides our business practices. All our decisions from development to recognition of our staff to operational processes to capital allocation are tested against our Vision with the ultimate goal of providing our residents with a great place to live. We believe if we can get that right, we will live up to our obligations to all of our stakeholders including residents, family members, employees and unitholders.

I am confident that our achievements in 2016 set a strong foundation for Chartwell to capitalize on the upcoming demographic trends and to continue to create long-term, sustainable value for our investors.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brent Binions', with a stylized, flowing script.

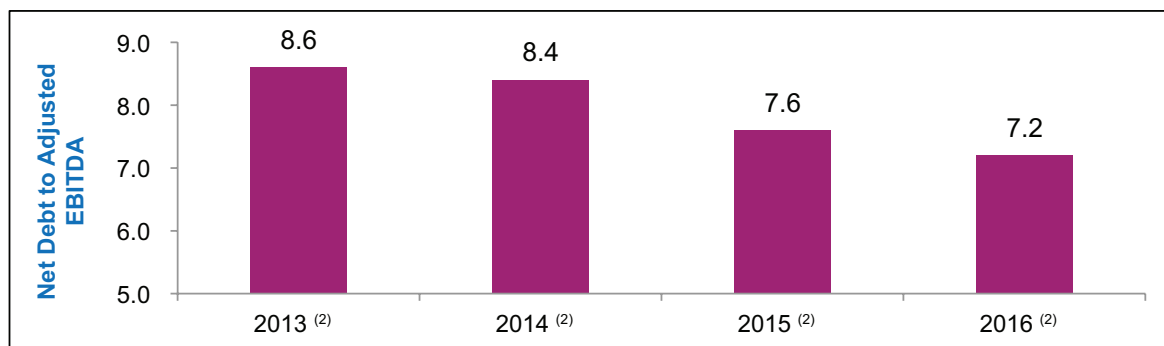
Brent Binions  
President and CEO

*\* This message from the President and CEO contains forward-looking information.  
Please see the "Forward-Looking Information and Risks and Uncertainties" section  
of the MD&A contained in the Financial Report section of this Annual Report.*

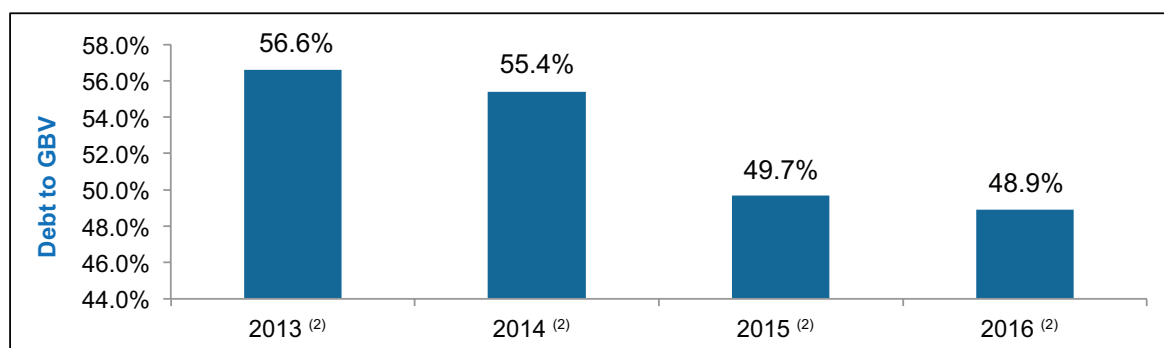
# Building Sustainable Value

## MAINTAINING PRUDENT FINANCIAL LEVERAGE

### Net Debt to Adjusted EBITDA Ratio <sup>(1)</sup>

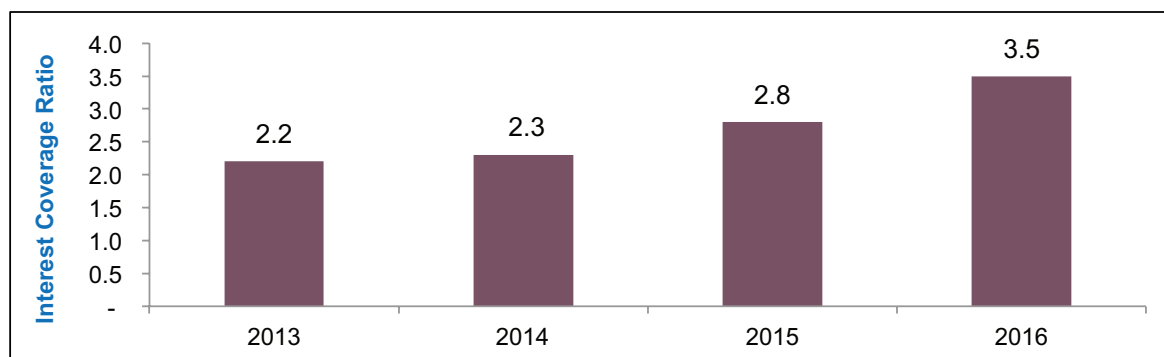


### Indebtedness Ratio <sup>(1)</sup>



## IMPROVING INTEREST COVERAGE

### Interest Coverage Ratio <sup>(1)</sup>



(1) For a discussion of these metrics, refer to the "Non-GAAP Measures" section of the Management's Discussion and Analysis ("MD&A") contained in the Financial Report section of this Annual Report.

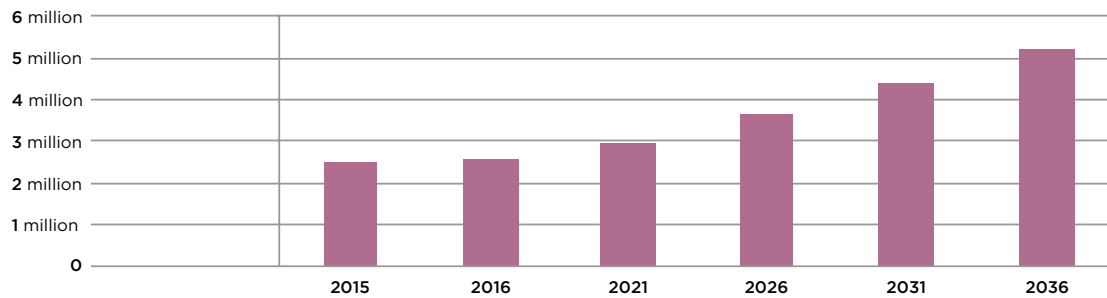
(2) As at December 31. In the tables above, 2015 metrics exclude the results of our U.S. portfolio accounted for as discontinued operations and 2013-2014 include the results of our U.S. portfolio.



# Demographic Trends

## SIGNIFICANT FUTURE DEMAND IN CANADA

### Projected Aged 75 and over Population, 2015-2036, Canada



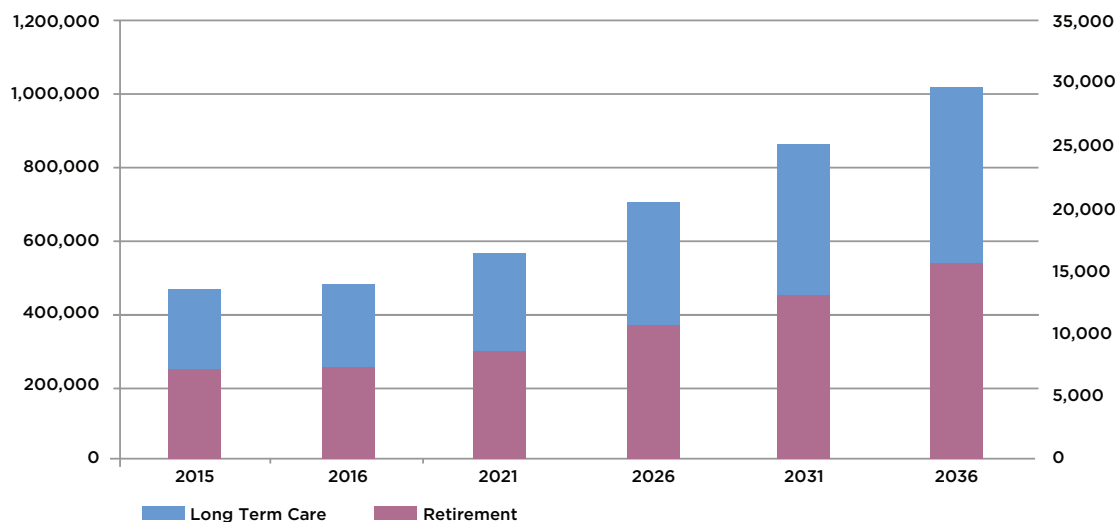
|                                 | 2015      | 2016      | 2021      | 2026      | 2031      | 2036      |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Projected 75+ Population        | 2,495,700 | 2,563,400 | 3,024,000 | 3,766,200 | 4,614,900 | 5,457,400 |
| Cumulative 75+ Growth from 2014 | 56,000    | 123,700   | 584,300   | 1,326,500 | 2,175,200 | 3,017,700 |
| Average Annual Increase         | 56,000    | 67,700    | 92,120    | 148,440   | 169,740   | 168,500   |

Source: Statistics Canada, Population Projections for Canada, Provinces, and Territories, 2009 to 2036, Catalogue no. 91-520-X, 2010

- The size of our market more than doubles in the next 20 years
- Current supply is approximately 425,000 suites
- Approximately 600,000 new suites are required by 2036

### Total Supply

### Required Annual Supply



Retirement demand is estimated by applying the current national capture rate of 8.0% (CMHC Seniors Housing Report Canada Highlights, 2014) to 75+ population as reported by Statistics Canada.

LTC demand is estimated based on 97.8 beds per 1,000 people aged 75 and over. This estimate represents the 2005-2010 average LTC Beds/Population ratios reported by Statistics Canada in their Residential Care Facilities reports.

# Strategic Growth – Acquisitions & Developments

## ACQUISITIONS: 2016 TRANSACTIONS



### **CHARTWELL TIFFIN HOUSE**

MIDLAND, ON  
121 Suites



### **CHARTWELL LORD LANSDOWNE**

OTTAWA, ON  
127 Suites



### **CHARTWELL WEDGEWOOD**

BROCKVILLE, ON  
109 Suites



### **CHARTWELL DUKE OF DEVONSHIRE**

OTTAWA, ON  
105 Suites



### **CHARTWELL KAMLOOPS**

KAMLOOPS, BC  
97 Suites



### **CHARTWELL LES MONARQUES PHASE II**

ST-EUSTACHE, QC  
98 Suites



## AWARD RECOGNITION

Chartwell Le Teasdale was honoured to receive the Jury Mention in the Communications and Marketing category from the Urban Development Institute (UBI) Inova Award. The event recognizes the best real estate projects in Quebec and covers all categories from commercial to multi-residential and public buildings.



6 **CHARTWELL LE TEASDALE** TERREBONNE, QC



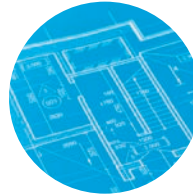
# Highlights of Development Projects

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## **CHARTWELL L'UNIQUE PHASE III**

STE. EUSTACHE, QC  
163 Suites  
**Expected Completion:** Q1 2017



## **CHARTWELL MEADOWBROOK VILLAGE**

LIVELY, ON  
55 Suites  
**Expected Completion:** Q2 2018



## **CHARTWELL LE PRESCOTT**

VAUDREUIL, QC  
290 Suites  
**Expected Completion:** Q2 2017



## **CHARTWELL ST. GABRIEL**

ST. HUBERT, QC  
310 Suites  
**Expected Completion:** Q2 2018



## **CHARTWELL MALASPINA GARDENS**

NANAIMO, BC  
136 Suites  
**Expected Completion:** Q2 2017



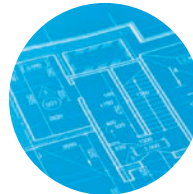
## **THE SUMACH BY CHARTWELL**

TORONTO, ON  
332 Suites  
**Expected Completion:** Q2 2018



## **CHARTWELL WATERFORD**

OAKVILLE, ON  
128 Suites  
**Expected Completion:** Q3 2017



## **KINGSTON PROJECT**

KINGSTON, ON  
165 Suites  
**Expected Completion:** Q2 2018



## **CHARTWELL CARLTON GARDENS**

BURNABY, BC  
105 Suites  
**Expected Completion:** Q4 2017



## **CHARTWELL WESCOTT**

EDMONTON, AB  
137 Suites  
**Expected Completion:** Q3 2018



## **CHARTWELL LE MONTCALM**

CANDIAC, QC  
283 Suites  
**Expected Completion:** Q4 2017



## **CHARTWELL GUILDWOOD**

SCARBOROUGH, ON  
170 Suites  
**Expected Completion:** Q2 2019



## **CHARTWELL BANKSIDE APARTMENTS**

KITCHENER, ON  
58 Suites  
**Expected Completion:** Q2 2018

# Pillars of our Business Strategy

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Our business strategy is principally focused on providing exceptional services and quality care to our residents, which we believe will help us to achieve sustainable earnings and cash flow growth and long-term value creation for our unitholders. The following summarizes our key strategic objectives:



## **GROW CORE PROPERTY PORTFOLIO CONTRIBUTION BY:**

- Providing high-quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Enhancing our brand recognition.
- Investing in innovative marketing and sales programs to increase prospect traffic, sales closing ratios and occupancy.
- Managing rental rates to ensure our properties are competitively positioned in the marketplace.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.



## **MAINTAIN A STRONG FINANCIAL POSITION BY:**

- Maintaining sufficient liquidity to execute on our strategic priorities.
- Staggering debt maturities over time to reduce financing and interest rate risks.
- Financing our properties with long-term debt where applicable, while managing interest costs.

## IMPROVE QUALITY AND EFFICIENCY OF OUR CORPORATE SUPPORT SERVICES BY:

- Implementing information technology solutions to better understand our customers, communicate with our employees, and reduce administrative time commitment in the field.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.



## BUILD VALUE OF OUR REAL ESTATE PORTFOLIO BY:

- Managing our real estate portfolio and individual assets to maximize long-term value through market analysis and research, prudent capital planning, strategic repositioning and divestiture.
- Developing innovative, modern, market-specific and operationally-efficient seniors communities that remain competitive over the long term.
- Accretively growing our real estate portfolio with newer properties by consolidating the fragmented industry.



# Highlights of Consolidated Results of Operations

In thousands of Canadian dollars, except occupancy rates and per unit amounts

| <b>YEARS ENDED DECEMBER 31</b>   | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Same property occupancy  | 93.6%       | 92.5%       |
| Same property net operating income ("NOI") <sup>(1)</sup>                          | 214,160     | 200,871     |
| Adjusted funds from operations ("AFFO") - continuing operations <sup>(1) (2)</sup> | 162,206     | 118,483     |
| AFFO per unit diluted - continuing operations <sup>(1) (2)</sup>                   | 0.85        | 0.66        |
| Total AFFO <sup>(1)</sup>  | 162,206     | 134,781     |
| Total AFFO per unit diluted <sup>(1)</sup>   | 0.85        | 0.75        |
| Funds from operations ("FFO") - continuing operations <sup>(1) (2)</sup>           | 172,637     | 128,303     |
| FFO per unit diluted - continuing operations <sup>(1) (2)</sup>                    | 0.91        | 0.71        |
| Total FFO <sup>(1)</sup>   | 172,637     | 146,317     |
| Total FFO per unit diluted <sup>(1)</sup>  | 0.91        | 0.81        |
| Distributions declared   | 106,089     | 97,917      |
| Distributions declared per unit  | 0.56        | 0.55        |
| Distributions declared as percentage of total AFFO                                 | 65.4%       | 72.6%       |

<sup>(1)</sup> For a discussion of these metrics, refer to the "Non-GAAP Measures" section of the MD&A contained in the Financial Report section of this Annual Report.

<sup>(2)</sup> Excludes results of Chartwell's U.S. Operations.

# FINANCIAL REPORT

For the Year Ended December 31, 2016

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Chartwell Retirement Residences (“Chartwell” or the “Trust”) has prepared the following management’s discussion and analysis (the “MD&A”) to provide information to assist its current and prospective investors’ understanding of the financial results of Chartwell for the year ended December 31, 2016. This MD&A should be read in conjunction with Chartwell’s audited, consolidated financial statements for the years ended December 31, 2016 and 2015, and the notes thereto (the “Financial Statements.”) This material is available on Chartwell’s website at [www.chartwell.com](http://www.chartwell.com). Additional information about Chartwell, including its Annual Information Form (“AIF”) for the year ended December 31, 2016, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The discussion and analysis in this MD&A is based on information available to management as of February 23, 2017.

All references to “Chartwell,” “we,” “our,” “us” or the “Trust” refer to Chartwell Retirement Residences and its subsidiaries, unless the context indicates otherwise. For ease of reference “Chartwell” and the “Trust” are used in reference to the ownership and the operation of retirement and long term care communities and the third-party management business of Chartwell. The direct ownership of such communities and operation of such business is conducted by subsidiaries of the Trust.

In this document, “Q1” refers to the three-month period ended March 31; “Q2” refers to the three-month period ended June 30; “Q3” refers to the three-month period ended September 30; “Q4” refers to the three-month period ended December 31; “2016” refers to the calendar year 2016; “2015” refers to the calendar year 2015, “2014” refers to the calendar year 2014 and “YTD” means year-to-date.

Unless otherwise indicated, all comparisons of results for 2016 and Q4 2016 are in comparison to results from 2015 and Q4 2015, respectively.

In this document we use a number of performance measures that are not defined in generally accepted accounting principles (“GAAP”) such as Funds from Operations (“FFO”), Adjusted Funds from Operations (“AFFO”), Net Operating Income (“NOI”), “Property NOI,” “Property Revenue,” “Direct Property Operating Expenses,” “Same Property Performance,” “G&A Expenses as a percentage of Revenue,” “Interest Coverage Ratio,” “Adjusted Gross Book Value,” “Indebtedness Ratio,” “Adjusted EBITDA,” “Net Debt to Adjusted EBITDA Ratio,” “Distributions Declared as a Percentage of Total AFFO,” “Estimated Development Costs,” “Expected Unlevered Yield,” “Chartwell’s Interest” and any related per unit amounts to measure, compare and explain the operating results and financial performance of the Trust (collectively, the “Non-GAAP Measures”). These Non-GAAP Measures do not have a standardized meaning prescribed by International Financial Reporting Standards (“IFRS”) and, therefore, may not be comparable to similar measures presented by other publicly-traded entities. Please refer to the “Joint Arrangements” and “Non-GAAP Measures” sections of this MD&A for details.

The results of operations of our United States Operations (the “U.S. Portfolio,”) which we disposed of in 2015, are reported as discontinued operations throughout this MD&A.

All dollar references, unless otherwise stated, are in Canadian dollars. Amounts in United States (“U.S.”) dollars are identified as U.S.\$.

This document contains forward-looking information based on management’s expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry as of the date of this MD&A. Refer to the “Forward-Looking Information and Risks and Uncertainties” section of this MD&A for more information.

## Business Overview

Chartwell is an unincorporated, open-ended trust governed by the laws of the Province of Ontario. We indirectly own and manage a portfolio of seniors housing communities across the complete continuum of care, all of which are located in Canada.

### ***Our Continuum of Care:***

- Independent living (“IL”) - Age-qualified suites/ townhouses/ bungalows with availability of providing meals and dining, housekeeping and laundry services without personal care services/personal assistance available.
- Independent supportive living (“ISL”) - Age-qualified suites/ townhouses/ bungalows with dining, housekeeping and laundry services with personal assistance services available.
- Assisted living (“AL”) - Age-qualified suites with a base level of personal assistance services included in the service fee, in a separate wing, floor or building. Additional care services may be added on top of base fee.
- Memory care (“MC”) - Age-qualified suites with personal care services included in base fee for persons with Alzheimer’s disease or some other form of dementia, in a separate/secure wing, floor or building.
- Long term care (“LTC”) - Access to 24-hour nursing care or supervision in a secure setting, assistance with daily living activities and high levels of personal care. Admission and funding is overseen by local government agencies in each province.

### ***Our Vision is...*** Making People’s Lives Better

### ***Our Mission is...***

- to provide a happier, healthier and more fulfilled life experience for seniors;
- to provide peace of mind for our residents’ loved ones; and
- to attract and retain employees who care about making a difference in our residents’ lives.

### ***Our Values are...***

Respect – We honour and celebrate seniors

Empathy – We believe compassion is contagious

Service Excellence – We believe in providing excellence in customer service

Performance – We believe in delivering and rewarding results

Education – We believe in lifelong learning

Commitment – We value commitment to the Chartwell family

Trust – We believe in keeping our promises and doing the right thing

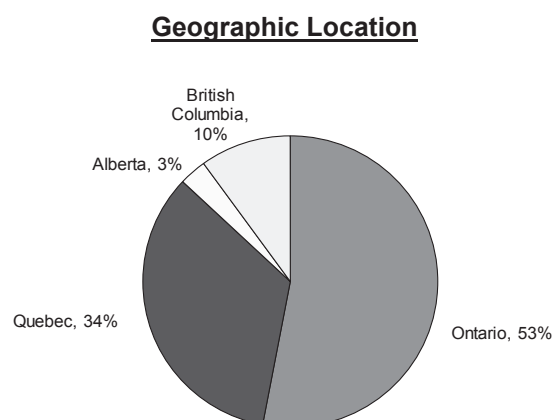
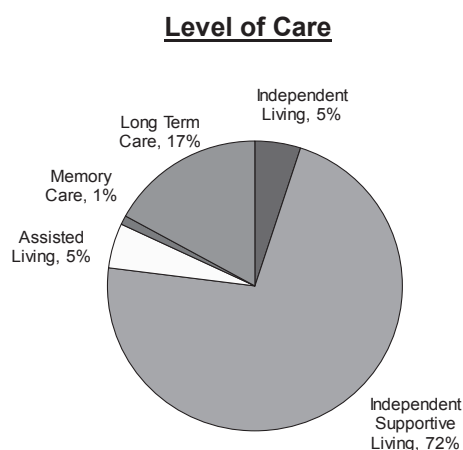
The following is the composition of our owned and managed portfolio of seniors housing communities in our two operating segments at December 31, 2016:

|  | Retirement Operations |               | Long Term Care Operations |              | Total       |               |
|--|-----------------------|---------------|---------------------------|--------------|-------------|---------------|
|  | Communities           | Suites/Beds   | Communities               | Suites/Beds  | Communities | Suites/Beds   |
| <b>Owned Communities:</b> <sup>(1)</sup>   |                       |               |                           |              |             |               |
| 100% Owned – operating                     | 109                   | 13,536        | 24                        | 3,133        | 133         | 16,669        |
| Partially Owned – operating <sup>(2)</sup> | 46                    | 8,217         | -                         | -            | 46          | 8,217         |
| <b>Total Owned</b>                         | <b>155</b>            | <b>21,753</b> | <b>24</b>                 | <b>3,133</b> | <b>179</b>  | <b>24,886</b> |
| <b>Managed Communities</b>                 | <b>5</b>              | <b>947</b>    | <b>4</b>                  | <b>608</b>   | <b>9</b>    | <b>1,555</b>  |
| <b>Total</b>                               | <b>160</b>            | <b>22,700</b> | <b>28</b>                 | <b>3,741</b> | <b>188</b>  | <b>26,441</b> |

(1) Where a community provides more than one level of care, it has been designated according to the predominant level of care provided, type of licensing and funding received and internal management responsibility.

(2) We have a 50% ownership interest in these communities (7,858 suites) with the exception of three retirement communities (359 suites) and one medical office building in which we have an 85% ownership interest.

**Composition of Portfolio of Owned Suites  
at Chartwell's Share of Ownership Interest, at December 31, 2016 by:**



## **Business Strategy**

Our business strategy is principally focused on providing exceptional services and quality care to our residents, which we believe will help us to achieve sustainable growth in our AFFO per unit and long-term value creation for our unitholders. The following summarizes our key strategic objectives:

### ***Grow core property portfolio contribution by:***

- Providing high-quality and expanding service offerings to our residents to maintain and improve resident satisfaction.
- Enhancing our brand recognition.
- Investing in innovative marketing and sales programs to increase prospect traffic, sales closing ratios and occupancy.
- Managing rental rates to ensure our properties are competitively positioned in the marketplace.
- Mitigating inflationary pressures on our operating costs through specific vendor management and cost-control initiatives.

### ***Maintain a strong financial position by:***

- Maintaining sufficient liquidity to execute on our strategic priorities.
- Staggering debt maturities over time to reduce financing and interest rate risks.
- Financing our properties with long-term debt where applicable, while managing interest costs.

### ***Improve quality and efficiency of our corporate support services by:***

- Implementing information technology solutions to better understand our customers, communicate with our employees, and reduce administrative time commitment in the field.
- Continuously reviewing our administrative and operating processes in order to increase efficiencies and improve support services provided to our operating teams.

### ***Build value of our real estate portfolio by:***

- Managing our real estate portfolio and individual assets to maximize long-term value through market analysis and research, prudent capital planning, strategic repositioning and divestiture.
- Developing innovative, modern, market-specific and operationally-efficient seniors communities that remain competitive over the long term.
- Accretively growing our real estate portfolio with newer properties by consolidating the fragmented industry.

The following summarizes the progress we made in executing our strategy to date:

|   |  |
|---|--|
| <b>Grow core property portfolio contribution</b>                        | <ul style="list-style-type: none"> <li>• Focus on enhancing resident experience drives improved operating results.</li> <li>• Same property NOI <sup>(1)</sup> increased \$13.3 million or 6.6% in 2016.</li> <li>• Same property occupancy improved 1.1 percentage points to 93.6% in 2016.</li> </ul>  |
| <b>Maintain a strong financial position</b>                             | <ul style="list-style-type: none"> <li>• At December 31, 2016, we had cash on hand <sup>(2)</sup> of \$38.3 million and \$73.8 million of available borrowing capacity under our Credit Facilities.</li> <li>• Interest Coverage Ratio <sup>(3)</sup> improved to 3.51 in 2016 compared to 2.84 in 2015.</li> <li>• Net Debt to Adjusted EBITDA Ratio <sup>(3)</sup> was 7.2 at December 31, 2016 compared to 7.6 at December 31, 2015.</li> <li>• Indebtedness Ratio <sup>(3)</sup> was 48.9% at December 31, 2016 compared to 49.7% at December 31, 2015.</li> </ul> |
| <b>Improve quality and efficiency of our corporate support services</b> | <ul style="list-style-type: none"> <li>• Established internal business support services centre “At Your Service” to improve information systems and business process support to our operating teams.</li> <li>• Completed the first phase of implementation of our new Human Capital Management system.</li> </ul>   |
| <b>Build value of our real estate portfolio</b>                         | <ul style="list-style-type: none"> <li>• Completed five acquisitions for a total of \$211.7 million. <sup>(4)</sup></li> <li>• Work continues on our development pipeline of 2,332 suites with nine projects in construction and four projects in pre-development. <sup>(5)</sup></li> </ul>   |

(1) Non-GAAP; refer to the “Summary of Net Operating Income” and the “Non-GAAP Measures” sections of this MD&A.

(2) Non-GAAP; includes Chartwell's Interest in equity accounted investments of \$8.2 million. Refer to the “Joint Arrangements” section of this MD&A for details.

(3) Non-GAAP; refer to the “Liquidity and Capital Commitments” and the “Non-GAAP Measures” sections of this MD&A.

(4) Excluding accounting adjustments.

(5) Includes projects by Batimo and Signature Living.



## 2017 Outlook

Economic conditions in Canada remain challenging, with continuing weakness in the regions with oil-dependent economies and uncertainty related to the new U.S. administration's trade policies. Our exposure to the Alberta market is limited to seven properties (755 suites) and these properties continue to exhibit strong occupancy rates. The current economic weakness has created growth opportunities in the province.

Due to uncertain economic conditions, we do not expect significant growth in interest rates with increases in 2017, if any, to be gradual. This should be positive for our ability to finance new acquisitions and developments and for refinancing of our maturing debt.

While it is expected that as a result of various government initiatives growth in housing prices will slow down, we do not expect any significant market disruptions. This state of the housing market should continue to support the ability of our prospective customers to sell their properties prior to moving to a retirement residence.

Seniors housing development activity has increased with more new product coming to some of our markets in 2017 and 2018. We believe that the long-term impact of these developments will be mitigated by the projected growth in the seniors population in 2017 and beyond. We also believe that the quality of services and care that we offer at our properties, our strong national brand recognition, as well as the overall quality of our real estate portfolio, will allow us to successfully compete with these new properties.

### ***Retirement Operations***

We expect to generate moderate NOI growth through occupancy improvements, rate increases in line with competitive market conditions and a full-year contribution from the properties acquired in 2016 in our Retirement Operations segment.

We believe that our ongoing investments in branding, marketing and sales initiatives have increased, and will continue to increase awareness of Chartwell's name, prospect traffic to our residences and our occupancies. With our focus on enhancing customer experience at our residences, we expect to continue to grow our revenues, including revenues from additional care and services. We will continue our focus on managing controllable costs through ongoing operations efficiency reviews, centralized purchasing and energy management programs while improving the quality of goods and services provided to residents.

- In Ontario, our same property occupancy improved to 88.8% in 2016 from 87.6% in 2015 as the pace of new supply has been more in line with the growth of the seniors population and the markets continued to absorb excess inventory. While it is possible that upcoming new supply may have a short-term negative impact on occupancies in certain markets, overall we expect to see continuing incremental occupancy improvements in 2017 and average rental rate growth of approximately 3.0% in our Ontario portfolio.
- Our Western Canada platform delivered exceptionally strong performance in 2016 with same property portfolio occupancy reaching 96.9% in Q4 2016. While new developments may have a short-term negative impact on occupancies in certain markets, overall we expect to maintain high occupancies in our Western Canada platform with expected average rental rate growth of 3.0% in 2017.
- In Quebec, a number of large operators announced significant multi-year development programs. We also continue our development activities in the province in partnership with Batimo Inc. ("Batimo"). We believe that this anticipated growth in inventory is a reflection of the strong demographic trends and the resulting increases in demand, and older existing inventory. Our Quebec portfolio occupancies improved to 94.5% in 2016 from 93.5% in 2015. We expect to maintain high occupancies in our Quebec platform with average rental rate growth of approximately 2.5% in 2017.

## ***Long Term Care Operations***

In 2016, our LTC same property portfolio NOI declined by 0.2% primarily as a result of lower ancillary revenues. Our occupancies remained high at 98.4% in 2016. We expect stable performance and high occupancies in 2017 as there are over 25,000 people on the waiting list for LTC accommodation in Ontario. We continue our work with the industry association and the Ontario government to develop a viable redevelopment program for the remaining Class B and Class C beds in the province. We have nine properties with 876 beds subject to redevelopment.

## ***General, Administrative and Trust Expenses***

We continue to invest in our management platform to allow for enhanced corporate support to our operating teams and to appropriately resource the significant increase in our acquisitions and development activities in the past two years. We will continue these investments in 2017, supporting the implementation of new information management systems and the expected increase in development activities. At the same time, we will continue our efficiency reviews of corporate processes and purchasing practices for goods and services to mitigate inflationary pressures on our G&A expenses.

## ***Development***

Development continues to be one of our core growth strategies. In 2016, in partnership with Batimo, we completed construction of two projects with 441 suites in Quebec. We expect to acquire an 85% interest in these projects upon the properties achieving stabilized occupancy levels.

At this time, our development program consists of 13 projects with 2,332 suites in various stages of development. We continue to source and evaluate other opportunities, including development opportunities on our owned lands with an estimated development and redevelopment potential of over 2,800 additional suites.

## ***Acquisitions***

In 2016, we acquired interests in five properties. In addition, in Q1 2017, we completed an acquisition of one property with 107 suites and entered into an agreement to acquire another 66-suite property. We are evaluating a number of other potential acquisitions in our core markets and continue to proactively search for additional opportunities to add newer, well-located and well-built properties to our portfolio.

## ***Dispositions***

As part of the ongoing reviews of our real estate portfolio, we may identify assets that no longer fit with the strategic direction of our company due to their age, location or other attributes. In 2016, we completed sales of three non-core properties, and in Q1 2017, we entered into an agreement to sell another property in Quebec.

## ***Taxation***

In 2016, 36.7% of our distributions were classified as return of capital, 58.2% as non-taxable capital dividend and 5.1% as non-eligible dividend. Based on our current forecasts, we expect to have sufficient deductions and losses carried forward to eliminate any specified investment flow through ("SIFT") taxes in 2017.

## ***Distributions***

On February 23, 2017, we announced our third consecutive annual increase in monthly distributions. Monthly cash distributions will increase by 2.5% from \$0.046818 per unit (\$0.561816 on an annualized basis) to \$0.048 per unit (\$0.5760 on an annualized basis) effective for the March 31, 2017 distribution payable on April 17, 2017.

## **Significant Events**

The following events have had a significant effect on our financial results in 2016 and may be expected to affect our results in the future.

## ***Development***

In accordance with our strategy to innovatively develop modern, market-specific and operationally efficient seniors communities that remain competitive over the long term, we maintain a robust internal development program. We also partner with other reputable developers in order to gain access to attractive sites in strong markets.

In 2016, Batimo, in partnership with Chartwell, completed construction of the 343-suite Chartwell Le Teasdale Retirement Community in Terrebonne, Quebec and the 98-suite Chartwell Les Monarques Phase II Retirement Residence in Ste. Eustache, Quebec. Chartwell has provided a \$5.9 million mezzanine loan on Chartwell Le Teasdale, manages the lease-up of both of these residences and expects to acquire an 85% interest in both properties upon achievement of stabilized occupancy expected in Q4 2017 for Chartwell Le Teasdale and in Q3 2018 for Chartwell Les Monarques Phase II.

The following table summarizes projects that are in various stages of development as of the date of this MD&A:

| Project  | Location          | Suites / Beds | Suite Type | Current Project Status | Estimated Development Costs <sup>(1)</sup><br>(\$ millions) | Costs incurred as at Dec. 31, 2016 <sup>(2)</sup><br>(\$ millions) | Actual/Expected Completion Date | Expected Stabilization Date | Expected Unlevered Yield <sup>(3)</sup> |
|--|-------------------|---------------|------------|------------------------|---|--|---------------------------------|-----------------------------|---|
| Chartwell Waterford Retirement Residence                     | Oakville, ON      | 128           | ISL / MC   | Construction           | 43.6  | 10.9   | Q3 2017                         | Q3 2019                     | 8.3%                                    |
| Chartwell Carlton Gardens Retirement Residence               | Burnaby, BC       | 105           | IL         | Construction           | 38.4  | 6.6  | Q4 2017                         | Q4 2019                     | 7.7%                                    |
| Chartwell Malaspina Gardens Care Residence                   | Nanaimo, BC       | 136           | LTC        | Construction           | 27.5  | 15.2   | Q2 2017                         | Q2 2017                     | 8.8%                                    |
| Chartwell Bankside Apartments                                | Kitchener, ON     | 58            | IL         | Construction           | 18.6  | 2.1  | Q2 2018                         | Q3 2019                     | 7.3%                                    |
| The Sumach by Chartwell <sup>(4)</sup>                       | Toronto, ON       | 332           | IL         | Construction           | 45.4  | 10.1   | Q2 2018                         | Q2 2020                     | 6.9%                                    |
| Chartwell Meadowbrook Village                                | Lively, ON        | 55            | IL / ISL   | Pre-development        | 17.4  | 0.2  | Q2 2018                         | Q2 2019                     | 8.9%                                    |
| Chartwell Wescott Retirement Residence                       | Edmonton, AB      | 137           | ISL / MC   | Pre-development        | 45.4  | 4.7  | Q3 2018                         | Q4 2020                     | 7.2%                                    |
| Chartwell Guildwood Retirement Residence <sup>(5)</sup>      | Scarborough, ON   | 170           | ISL / MC   | Pre-development        | 56.0  | 0.5  | Q2 2019                         | Q4 2020                     | 8.4%                                    |
|  |                   | 1,121         |            |                        | 292.3   | 50.3   |                                 |                             |   |
| <b>Projects by Batimo <sup>(6)</sup></b>                     |                   |               |            |                        |   |  |                                 |                             |   |
| Chartwell L'Unique Phase III <sup>(7)</sup>                  | Ste. Eustache, QC | 163           | ISL        | Construction           | N/A   | N/A  | Q1 2017                         | Q3 2018                     | N/A                                     |
| Chartwell Le Prescott  | Vaudreuil, QC     | 290           | ISL        | Construction           | N/A   | N/A  | Q2 2017                         | Q4 2018                     | N/A                                     |
| Chartwell Le Montcalm  | Candiac, QC       | 283           | ISL        | Construction           | N/A   | N/A  | Q4 2017                         | Q2 2019                     | N/A                                     |
| Chartwell St. Gabriel  | St. Hubert, QC    | 310           | ISL / AL   | Pre-development        | N/A   | N/A  | Q2 2018                         | Q3 2019                     | N/A                                     |
|  |                   | 1,046         |            |                        |   |  |                                 |                             |   |
| <b>Project by Signature Living</b>                           |                   |               |            |                        |   |  |                                 |                             |   |
| Centennial Place Retirement Residence Phase I <sup>(8)</sup> | Kingston, ON      | 165           | ISL / AL   | Construction           | 30.0  | 0.1  | Q2 2018                         | Q3 2021                     | 7.1%                                    |
|  |                   | 2,332         |            |                        | 322.3   | 50.4   |                                 |                             |   |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Estimated Development Costs" section of this MD&A.

(2) Non-GAAP; reported at Chartwell's Interest.

(3) Non-GAAP; refer to the "Non-GAAP Measures – Expected Unlevered Yield" section of this MD&A.

(4) Chartwell owns a 45% interest in this project and manages pre-opening and lease-up.

(5) Redevelopment of the existing 83-suite residence to a 170-suite residence. Chartwell owns a 50% interest in this project.

(6) Chartwell manages pre-opening and lease-up of these Batimo projects and expects to acquire an 85% interest in these projects upon stabilization.

(7) Chartwell advanced a \$2.7 million mezzanine loan on this project on July 5, 2016.

(8) The site includes excess land for potential development of 84 additional suites. Chartwell owns a 60% interest in this project and Signature Living and its affiliates own the remaining 40% interest and provide development and operations management services. Chartwell expects to acquire the remaining 40% interest upon stabilization.

The following table summarizes additional development opportunities on our owned lands. While a number of these development projects are in advanced stages of feasibility assessments, others have a longer term development time horizon and, in some cases, may be subject to extensive municipal approval requirements.

| Residence  | Location            | Ownership % | Vacant Land Size (acres) | Estimated Potential Number of Suites <sup>(1)</sup> | Book Value of Land <sup>(2)</sup> (\$millions) |
|--|---------------------|-------------|--------------------------|---|--|
| Chartwell Cité-Jardin résidence pour retraités                               | Gatineau, QC        | 100         | 3.4                      | 600   | 8.6  |
| Chartwell Crescent Gardens Retirement Community                              | Surrey, BC          | 100         | 2.6                      | 184   | 4.9  |
| Chartwell Hartford Retirement Residence                                      | Morrisburg, ON      | 100         | 1.8                      | 94  | -  |
| Chartwell Montgomery Village Retirement Residence                            | Orangeville, ON     | 100         | 1.5                      | 120   | 1.0  |
| Chartwell Muskoka Traditions Retirement Residence                            | Hunstville, ON      | 100         | 0.4                      | 36  | 0.9  |
| Chartwell Ridgepointe Retirement Residence                                   | Kamloops, BC        | 100         | 4.5                      | 135   | 1.6  |
| Chartwell Ste-Marthe résidence pour retraités                                | Saint-Hyacinthe, QC | 100         | 0.8                      | 70  | 0.7  |
| Chartwell Thunder Bay Retirement Residence                                   | Thunder Bay, ON     | 100         | 1.2                      | 9   | -  |
| Chartwell Wedgewood Retirement Residence                                     | Brockville, ON      | 100         | 0.5                      | 54  | 0.6  |
| Chartwell Woodhaven Long Term Care Residence <sup>(3)</sup>                  | Markham, ON         | 100         | 1.4                      | 108   | -  |
| Chartwell Belcourt résidence pour retraités                                  | Ottawa, ON          | 50          | 0.2                      | 31  | 0.3  |
| Chartwell Domaine des Trembles résidence pour retraités                      | Gatineau, QC        | 50          | 1.5                      | 182   | 1.2  |
| Chartwell Héritage résidence pour retraités                                  | Ottawa, ON          | 50          | 0.6                      | 160   | 0.5  |
| Chartwell Kingsville Retirement Residence                                    | Kingsville, ON      | 50          | 1.6                      | 55  | 0.3  |
| Chartwell Manoir Pointe-aux-Trembles résidence pour retraités <sup>(4)</sup> | Montreal, QC        | 50          | 4.7                      | 72  | -  |
| Chartwell Manoir Saint-Jérôme résidence pour retraités                       | Saint-Jérôme, QC    | 50          | 6.0                      | 668   | 0.3  |
| Chartwell Notre-Dame Victoriaville résidence pour retraités                  | Victoriaville, QC   | 50          | 1.1                      | 66  | 0.1  |
| Chartwell Royal Marquis Retirement Residence                                 | Windsor, ON         | 50          | 0.6                      | 45  | 0.4  |
| Chartwell Royalcliffe Retirement Residence                                   | London, ON          | 50          | 1.3                      | 197   | 1.1  |
| Total <sup>(5)</sup>   |                     |             | 35.7                     | 2,886   | 22.5   |

(1) Numbers of potential suites to be developed are estimates and subject to change based on market conditions and municipal approval processes.

(2) At Chartwell's Interest.

(3) Leased lands.

(4) Potential redevelopment of the existing 247-suite residence to a 319-suite residence; acreage is for the entire site.

(5) Excludes \$0.6 million of land acquired to facilitate redevelopment of two LTC properties in Ontario.

## Acquisitions

On March 15, 2016, we acquired a 100% interest in the 105-suite Duke of Devonshire Retirement Residence located in Ottawa, Ontario (rebranded as 'Chartwell Duke of Devonshire Retirement Residence' post acquisition). The purchase price before closing costs and mortgage mark-to-market adjustment was \$63.7 million. The purchase price was settled by the assumption of a \$33.4 million mortgage bearing interest at 4.41% and maturing on September 1, 2024, with the balance settled in cash. We recorded a mortgage mark-to-market adjustment of \$2.5 million with respect to the assumed mortgage.

On April 21, 2016, we acquired from our joint-venture partner all outstanding shares of a corporation that owns a 50% interest in the 97-suite Chartwell Kamloops Retirement Residence ("Kamloops") located in Kamloops, British Columbia. The purchase price was \$5.9 million, representing the agreed upon value of the 50% interest in Kamloops of \$11.1 million, net of the company's share of the mortgage debt of \$5.2 million. The assumed mortgage bears interest at 3.95% and matures on October 1, 2019. We recorded a mortgage mark-to-market adjustment of \$0.2 million, goodwill of \$1.0 million and a deferred tax liability of \$1.5 million in connection with this transaction.

On May 2, 2016, we acquired a 100% interest in the 109-suite Wedgewood Retirement Resort in Brockville, Ontario (rebranded as 'Chartwell Wedgewood Retirement Residence' post acquisition). The purchase price before closing costs and mortgage mark-to-market adjustment was \$37.1 million. The purchase price was settled by the assumption of a \$19.8 million mortgage bearing interest at 4.29% and



maturing on April 1, 2017, with the balance settled in cash. We recorded a mortgage mark-to-market adjustment of \$0.3 million with respect to the assumed mortgage.

On June 2, 2016, we acquired a 100% interest in the 127-suite Lord Lansdowne Retirement Residence located in Ottawa, Ontario (rebranded as 'Chartwell Lord Lansdowne Retirement Residence' post acquisition). The purchase price before closing costs and mortgage mark-to-market adjustment was \$68.4 million. The purchase price was settled by the assumption of a \$22.1 million mortgage bearing interest at 4.56% and maturing on March 1, 2020, with the balance settled in cash. We recorded a mortgage mark-to-market adjustment of \$2.0 million with respect to the assumed mortgage.

On September 1, 2016, we acquired a 100% interest in the 121-suite Tiffin House Retirement Residence located in Midland, Ontario (rebranded as 'Chartwell Tiffin Retirement Residence' post acquisition). The purchase price before closing costs was \$31.5 million and was settled in cash.

On January 9, 2017, we entered into a definitive agreement to acquire the 66-suite Hilldale Gardens Retirement Residence in Thunder Bay, Ontario (which will be rebranded as 'Chartwell Hilldale Retirement Residence' post acquisition). The purchase price before closing costs is \$6.9 million and will be settled in cash with closing expected in March 2017.

On February 1, 2017, we acquired a 100% interest in the 107-suite The Orchards Retirement Residence located in Vineland, Ontario (rebranded as 'Chartwell Orchards Retirement Residence' post acquisition). The purchase price before closing costs was \$22.0 million and was settled in cash.

The following table summarizes acquisitions completed in 2016:

| (\$000s, except communities and suites/beds)                 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | 2016    | 2015    |
|--|---------|---------|---------|---------|---------|---------|
| Number of communities  | 1       | 3       | 1       | -       | 5       | 13      |
| Number of suites/beds  | 105     | 333     | 121     | -       | 559     | 1,772   |
| Contractual purchase price, excluding deferred consideration | 63,650  | 116,600 | 31,501  | -       | 211,751 | 585,211 |
| <i>Accounting adjustments:</i>                               |         |         |         |         |         |         |
| Estimated present value of deferred consideration            | -       | -       | -       | -       | -       | 1,506   |
| Assumed tax liability <sup>(1)</sup>                         | -       | 1,518   | -       | -       | 1,518   | 8,216   |
| Valuation of Class B Units                                   | -       | -       | -       | -       | -       | 136     |
| Mortgage mark-to-market adjustment                           | 2,516   | 2,469   | -       | -       | 4,985   | 7,212   |
| Adjusted purchase price                                      | 66,166  | 120,587 | 31,501  | -       | 218,254 | 602,281 |
| <i>Settled as follows:</i>                                   |         |         |         |         |         |         |
| Cash   | 30,251  | 69,440  | 31,501  | -       | 131,192 | 488,198 |
| Mezzanine loan settlement                                    | -       | -       | -       | -       | -       | 1,455   |
| Assumed mortgages – contractual amounts                      | 33,399  | 47,160  | -       | -       | 80,559  | 80,558  |
| Mortgage mark-to-market                                      | 2,516   | 2,469   | -       | -       | 4,985   | 7,212   |
| Class B Units  | -       | -       | -       | -       | -       | 15,136  |
| Estimated present value of deferred consideration            | -       | -       | -       | -       | -       | 1,506   |
| Deferred tax liability                                       | -       | 1,518   | -       | -       | 1,518   | 8,216   |
| Total  | 66,166  | 120,587 | 31,501  | -       | 218,254 | 602,281 |

(1) Q2 2016 amount includes \$1.0 million recorded as goodwill.

## Dispositions

On May 3, 2016, we notified residents of Chartwell Castel Royal résidence pour retraités, a 250-suite retirement residence in Montreal, Quebec, that we will be ceasing operations of the property effective May 2017. In Q1 2017, we entered into an agreement to sell the property. The sale price is \$23.5 million, of which \$2.5 million will be held in escrow for two years after closing to support purchaser's rental income and certain renovation costs. The closing is expected in Q2 2017. One of our Directors is also an officer and director of the purchaser and was not involved in any discussions or decision making related to this sale.

On June 27, 2016, we completed the sale of three non-core retirement residences in Quebec. Mortgages totalling \$17.9 million bearing interest at the weighted average rate of 3.99% were assumed by the purchaser on closing. Under the terms of the transaction, \$1.7 million was due to the purchaser upon satisfaction of certain conditions subsequent to closing, of which \$0.9 million has been released to date.

## Redemption of 5.7% Convertible Debentures

As more fully described in the "Liquidity and Capital Commitments – Convertible Debentures" section of this MD&A, we redeemed all our 5.7% Convertible Debentures on May 16, 2016.

## Capital Funding Receivable

In Q1 2016, we received notices of increases in capital funding on three redeveloped LTC properties from \$15.48 per bed per day to \$18.83 per bed per day, retroactive to the date of completion. As a result, we recognized an additional capital funding receivable of \$5.0 million with a corresponding reduction in cost of property, plant and equipment ("PP&E").

## Joint Arrangements

IFRS 11 – Joint Arrangements requires certain joint arrangements that were previously accounted for using line-by-line proportionate ("line-by-line") consolidation to now be accounted for using the equity method. Under IFRS 11, as applied to Chartwell, equity accounting is required where an interest in a joint arrangement is held through a separate legal entity such as a limited partnership or corporation; however, where an interest is held directly, line-by-line consolidation continues to apply.

The following table summarizes the details of our joint arrangements and related accounting methods:

| Joint Arrangements                          | # of Properties | Suites/Beds   | Chartwell Ownership          | Method of Accounting |
|---|-----------------|---------------|------------------------------|----------------------|
| Chartwell-Welltower Landlord <sup>(1)</sup> | 38              | 7,354         | 50%                          | Line-by-line         |
| Chartwell-Welltower Operator <sup>(1)</sup> | Same as above   | Same as above | 50%                          | Equity               |
| Batimo                                      | 4               | 359           | 85%                          | Line-by-line         |
| Oakville                                    | 1               | 147           | 50%                          | Equity               |
| Constantia                                  | 1               | 121           | 50%                          | Equity               |
| Riverside                                   | 1               | 138           | 50%                          | Line-by-line         |
| Churchill                                   | 1               | 98            | 50%                          | Line-by-line         |
| Clair Hills <sup>(2)</sup>                  | 1               | 120           | Refer to note <sup>(2)</sup> | Equity               |
| Oak Ridges <sup>(2)</sup>                   | 1               | 129           | Refer to note <sup>(2)</sup> | Equity               |
| The Sumach                                  | 1               | 332           | 45%                          | Line-by-line         |

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

(2) Chartwell owns 100% of Class C units of these limited partnerships. Certain affiliates of the vendors own 100% of Class R units.

On April 21, 2016, we acquired the remaining 50% interest in Kamloops. Prior to this acquisition, we accounted for Kamloops using the line-by-line method.

During Q2 2016, we entered into a new joint arrangement with Welltower Inc. (“Welltower”) and Daniels Corporation (“Daniels”) to develop The Sumach by Chartwell (“The Sumach”), a 332-suite apartment building in Toronto, Ontario. Welltower and Chartwell each own a 45% interest and Daniels owns a 10% interest. The Sumach is accounted for on a line-by-line basis.

Throughout this document, amounts reported at ‘Chartwell’s Interest,’ a non-GAAP measure, represent Chartwell’s proportionate share of interests in our entire portfolio of investments excluding discontinued operations. Refer to the “Non-GAAP Measures – Chartwell’s Interest” section of this MD&A for a detailed description of this measure and reconciliations of Chartwell’s Interests to IFRS basis of presentation.

We believe that presenting the operating and financial results of our joint arrangements at Chartwell’s Interest, a non-GAAP basis, provides useful information to current and prospective investors to assist them with their understanding of our financial performance by providing transparency of revenue earned, expenses incurred, as well as assets and liabilities held through joint arrangements. Management uses this measure when making strategic and operational decisions at the portfolio level.

# Consolidated Results of Operations

## Highlights

The following table summarizes selected financial and operating performance measures:

| (\$000s, except occupancy rates and per unit amounts)                    | Q4 2016 | Q4 2015 | Change  | 2016    | 2015    | Change    |
|--|---------|---------|---------|---------|---------|-----------|
| Net income/(loss) - continuing operations                                | 12,826  | (1,361) | 14,187  | (710)   | 12,139  | (12,849)  |
| Total comprehensive income   | 15,053  | 562     | 14,491  | 4,796   | 357,579 | (352,783) |
| Resident revenue <sup>(1)</sup>  | 213,350 | 201,686 | 11,664  | 834,733 | 750,127 | 84,606    |
| Weighted average occupancy rate - same property portfolio <sup>(2)</sup> | 93.7%   | 93.7%   | -       | 93.6%   | 92.5%   | 1.1pp     |
| Same property NOI <sup>(3)</sup>   | 52,702  | 51,568  | 1,134   | 214,160 | 200,871 | 13,289    |
| AFFO - continuing operations <sup>(4)</sup>                              | 40,660  | 36,252  | 4,408   | 162,206 | 118,483 | 43,723    |
| AFFO per unit diluted - continuing operations <sup>(5)</sup>             | 0.21    | 0.20    | 0.01    | 0.85    | 0.66    | 0.19      |
| Total AFFO <sup>(4)</sup>  | 40,660  | 36,252  | 4,408   | 162,206 | 134,781 | 27,425    |
| Total AFFO per unit diluted <sup>(5)</sup>                               | 0.21    | 0.20    | 0.01    | 0.85    | 0.75    | 0.10      |
| FFO - continuing operations <sup>(6)</sup>                               | 43,767  | 38,484  | 5,283   | 172,637 | 128,303 | 44,334    |
| FFO per unit diluted - continuing operations <sup>(5)</sup>              | 0.23    | 0.21    | 0.02    | 0.91    | 0.71    | 0.20      |
| Total FFO <sup>(6)</sup>   | 43,767  | 38,484  | 5,283   | 172,637 | 146,317 | 26,320    |
| Total FFO per unit diluted <sup>(5)</sup>                                | 0.23    | 0.21    | 0.02    | 0.91    | 0.81    | 0.10      |
| Distributions declared <sup>(7)</sup>                                    | 27,221  | 24,735  | 2,486   | 106,089 | 97,917  | 8,172     |
| Distributions declared per unit <sup>(5)</sup>                           | 0.14    | 0.14    | -       | 0.56    | 0.55    | 0.01      |
| Distributions declared as a percentage of total AFFO <sup>(8)</sup>      | 66.9%   | 68.2%   | (1.3pp) | 65.4%   | 72.6%   | (7.2pp)   |

(1) Non-GAAP; reported at Chartwell's Interest. Resident revenue per Financial Statements was \$714.4 million and \$182.7 million in 2016 and Q4 2016, respectively (\$643.9 million and \$173.4 million in 2015 and Q4 2015, respectively.) Refer to the "Joint Arrangements" section of this MD&A for details of this calculation.

(2) pp = percentage points.

(3) Non-GAAP; reported at Chartwell's Interest. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

(4) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for the details of the AFFO and AFFO per unit diluted calculations.

(5) Non-GAAP; refer to the "Non-GAAP Measures – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts.

(6) Non-GAAP; refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for the reconciliation of FFO to net income/(loss) and calculations of FFO per unit diluted.

(7) Non-GAAP; includes distributions declared on Trust Units, Class B Units of Chartwell Master Care LP ("Class B Units") and Deferred Trust Units ("DTUs").

(8) Non-GAAP; refer to the "Non-GAAP Measures – Distributions Declared as a Percentage of Total AFFO" section of this MD&A for details of this calculation.

#### Net Income/(Loss):

In 2016, net loss from continuing operations was \$0.7 million compared to net income from continuing operations of \$12.1 million in 2015. The decline in net income is primarily due to higher depreciation and amortization expenses and revaluation charges on financial instruments, primarily due to appreciation in value of our Trust Units, lower deferred tax benefits, partially offset by higher revenues, net of direct property operating and general, administrative and Trust ("G&A") expenses.

For 2016, total comprehensive income declined \$352.8 million primarily as a result of a \$350.1 million income from discontinued operations recorded in 2015, which included a gain on sale of the U.S. Portfolio, for which there were no comparable items in 2016.

**Fourth Quarter:** For Q4 2016, net income from continuing operations was \$12.8 million compared to net loss of \$1.4 million in Q4 2015. Q4 2016 total comprehensive income was \$15.1 million compared to \$0.6 million in Q4 2015. The increase in net income and total comprehensive income was primarily due to higher revenues, net of direct property operating and G&A expenses, and positive changes in fair value of financial instruments, partially offset by higher depreciation and amortization charges.

#### AFFO:

For 2016, AFFO from continuing operations was \$162.2 million or \$0.85 per unit diluted, a 36.9% increase from \$118.5 million or \$0.66 per unit diluted in 2015. The following items impacted the change in AFFO from continuing operations:

- higher NOI of \$45.2 million consisting of a \$13.3 million increase in same property NOI and a \$31.9 million contribution from acquisitions and developments;
- higher management fee revenue of \$1.0 million, primarily due to growth in revenues of management properties and higher performance-related incentive fees;
- lower interest costs of \$1.3 million due to redemption of convertible debentures, partially offset by higher interest costs from acquisition-related financings;
- higher NOI guarantees of \$0.9 million; and
- higher capital funding subsidy receipts of \$1.0 million, primarily due to retroactive funding adjustments for three redeveloped LTC properties;

partially offset by:

- higher G&A expenses of \$3.1 million, primarily due to higher staffing costs incurred to support newly acquired and developed properties and higher cost of unit-based compensation resulting from the appreciation in value of our Trust Units;
- higher capital maintenance reserve of \$1.7 million, primarily due to growth in resident revenues;
- higher depreciation of leasehold improvements and amortization of software costs of \$0.8 million; and
- other items combined of \$0.1 million.

**Fourth Quarter:** For Q4 2016, AFFO from continuing operations was \$40.7 million or \$0.21 per unit diluted, a 12.2% increase from \$36.3 million or \$0.20 per unit diluted in Q4 2015. The following items impacted the change in AFFO from continuing operations:

- higher NOI of \$4.3 million consisting of a \$1.1 million increase in same property NOI and a \$3.2 million contribution from acquisitions and developments;
- higher management fee income of \$0.6 million; and
- lower interest costs of \$1.2 million

partially offset by:

- higher G&A expenses of \$0.6 million;
- lower amounts receivable under income guarantees of \$0.5 million;



- higher capital maintenance reserve of \$0.2 million, primarily due to growth in resident revenues; and
- other items combined of \$0.4 million.

Total AFFO, which for 2015 included results of our U.S. operations that were sold on June 30, 2015, increased \$27.4 million or 20.3% in 2016 and increased \$4.4 million or 12.2% in Q4 2016 due to significant improvements in our Canadian operations including a growing contribution from the properties acquired utilizing the net proceeds from the sale of the U.S. Portfolio.

#### FFO:

For 2016, FFO from continuing operations was \$172.6 million or \$0.91 per unit diluted compared to \$128.3 million or \$0.71 per unit diluted in 2015. For Q4 2016, FFO from continuing operations was \$43.8 million or \$0.23 per unit diluted compared to \$38.5 million or \$0.21 per unit diluted in Q4 2015. Total FFO increased \$26.3 million or \$0.10 per unit diluted in 2016 and increased \$5.3 million or \$0.02 per unit diluted in Q4 2016.

In addition to the items noted in the discussion of AFFO above, FFO from continuing operations was also impacted by changes in amortization of financing costs and debt mark-to-market adjustments.

Refer to the “Non-GAAP Measures” section of this MD&A for a discussion of the calculation of AFFO, FFO and per unit amounts.

### **Same Property Portfolio Highlights**

| (\$000s, except occupancy rates) | Q4 2016 | Q4 2015 | Change  | 2016    | 2015    | Change  |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Retirement portfolio:            |         |         |         |         |         |         |
| NOI <sup>(1)</sup>               | 46,345  | 44,671  | 1,674   | 186,531 | 173,177 | 13,354  |
| Occupancy                        | 92.8%   | 92.6%   | 0.2pp   | 92.6%   | 91.2%   | 1.4pp   |
| LTC portfolio:                   |         |         |         |         |         |         |
| NOI <sup>(1)</sup>               | 6,357   | 6,897   | (540)   | 27,629  | 27,694  | (65)    |
| Occupancy                        | 98.0%   | 98.8%   | (0.8pp) | 98.4%   | 98.7%   | (0.3pp) |
| Combined:                        |         |         |         |         |         |         |
| NOI <sup>(1)(2)</sup>            | 52,702  | 51,568  | 1,134   | 214,160 | 200,871 | 13,289  |
| Occupancy                        | 93.7%   | 93.7%   | -       | 93.6%   | 92.5%   | 1.1pp   |

(1) Non-GAAP; reported at Chartwell's Interest.

(2) Non-GAAP. Refer to the “Summary of Net Operating Income” and the “Non-GAAP Measures – Same Property Performance” sections of this MD&A for a discussion of the significance of this metric.

For 2016, combined same property occupancy was 93.6% compared to 92.5% in 2015, and same property NOI increased \$13.3 million or 6.6% as follows:

- In our retirement portfolio, same property NOI increased 7.7%. The increase was primarily due to higher occupancies, regular annual rental rate increases in line with competitive market conditions, lower insurance and bad debt expenses, partially offset by higher staffing costs incurred to support growing occupancies and to improve services delivered to our residents, as well as higher food, supplies, administrative and property tax expenses. Occupancy increased to 92.6% from 91.2% in 2015.
- In our LTC portfolio, same property NOI declined by 0.2%, primarily due to lower ancillary services revenues and higher utilities expenses, partially offset by higher preferred accommodation revenue. Occupancy remained high at 98.4%.

**Fourth Quarter:** In Q4 2016, combined same property occupancy was in line with Q4 2015 at 93.7%, and same property NOI increased \$1.1 million or 2.2% as follows:

- In our retirement portfolio, same property NOI increased 3.7%. The increase was primarily due to regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing costs incurred to improve services delivered to our residents, as well as higher marketing, utilities and administrative expenses. In Q4 2016, occupancy increased 0.2 percentage points to 92.8%.
- In our LTC portfolio, same property NOI decreased 7.8%, primarily due to lower ancillary services revenue and higher utilities expenses, partially offset by higher preferred accommodation revenue. Occupancy was 98.0% compared to 98.8% in Q4 2015.

## Summary of Net Operating Income

| (\$000s, except occupancy rates)  | Q4 2016 | Q4 2015 | Change | 2016    | 2015    | Change |
|---|---------|---------|--------|---------|---------|--------|
| <b>Resident Revenue</b>   |         |         |        |         |         |        |
| Same property <sup>(1)(2)</sup>   | 180,491 | 176,195 | 4,296  | 708,342 | 682,500 | 25,842 |
| Acquisitions and other <sup>(1)</sup>   | 32,859  | 25,491  | 7,368  | 126,391 | 67,627  | 58,764 |
|   | 213,350 | 201,686 | 11,664 | 834,733 | 750,127 | 84,606 |
| Less: Share of resident revenue from joint ventures                                 | 30,698  | 28,273  | 2,425  | 120,353 | 106,213 | 14,140 |
| Total resident revenue  | 182,652 | 173,413 | 9,239  | 714,380 | 643,914 | 70,466 |
| <b>Direct Property Operating Expenses</b>   |         |         |        |         |         |        |
| Same property <sup>(1)(2)</sup>   | 127,789 | 124,627 | 3,162  | 494,182 | 481,629 | 12,553 |
| Acquisitions and other <sup>(1)</sup>   | 19,843  | 15,664  | 4,179  | 75,214  | 48,385  | 26,829 |
|   | 147,632 | 140,291 | 7,341  | 569,396 | 530,014 | 39,382 |
| Less: Share of direct property operating expenses from joint ventures               | 19,455  | 17,789  | 1,666  | 74,169  | 66,479  | 7,690  |
| Total direct property operating expenses  | 128,177 | 122,502 | 5,675  | 495,227 | 463,535 | 31,692 |
| <b>Net Operating Income</b>   |         |         |        |         |         |        |
| Same property <sup>(1)(2)</sup>   | 52,702  | 51,568  | 1,134  | 214,160 | 200,871 | 13,289 |
| Acquisitions and other <sup>(1)</sup>   | 13,016  | 9,827   | 3,189  | 51,177  | 19,242  | 31,935 |
|   | 65,718  | 61,395  | 4,323  | 265,337 | 220,113 | 45,224 |
| Less: Share of net operating income from joint ventures                             | 11,243  | 10,484  | 759    | 46,184  | 39,734  | 6,450  |
| Total net operating income  | 54,475  | 50,911  | 3,564  | 219,153 | 180,379 | 38,774 |
| Weighted average occupancy rate - same property portfolio                           | 93.7%   | 93.7%   | -      | 93.6%   | 92.5%   | 1.1pp  |
| Weighted average occupancy rate - total portfolio excluding discontinued operations | 92.2%   | 91.8%   | 0.4pp  | 92.1%   | 90.7%   | 1.4pp  |

(1) Non-GAAP; reported at Chartwell's Interest.

(2) Non-GAAP. Refer to the "Non-GAAP Measures – Same Property Performance" section of this MD&A for a discussion of the significance of this metric.

Total resident revenue increased 10.9% in 2016 and 5.3% in Q4 2016. The changes in resident revenue were due to increased revenue in our same property portfolio and a growing revenue contribution from acquisitions and developments.

Same property resident revenue increased \$25.8 million or 3.8% in 2016 and \$4.3 million or 2.4% in Q4 2016, primarily as a result of higher occupancies and regular annual rental rate increases in line with competitive market conditions.

Total direct property operating expenses increased 6.8% in 2016 and 4.6% in Q4 2016. The changes in direct property operating expenses were due to higher expenses in our same property portfolio and acquisitions and developments.

Same property direct operating expenses increased \$12.6 million or 2.6% in 2016 and \$3.2 million or 2.5% in Q4 2016, primarily due to higher staffing and other costs incurred to improve services delivered to our residents and as a result of occupancy growth in our retirement portfolio.

## Management Fee Revenue

| (\$000s)                     | Q4 2016 | Q4 2015 | Change | 2016  | 2015  | Change |
|------------------------------|---------|---------|--------|-------|-------|--------|
| Welltower                    | 1,931   | 1,522   | 409    | 6,676 | 5,939 | 737    |
| Other                        | 610     | 455     | 155    | 2,101 | 1,876 | 225    |
| Total management fee revenue | 2,541   | 1,977   | 564    | 8,777 | 7,815 | 962    |

Management fee revenue increased in 2016 and Q4 2016 primarily due to growth in revenues of managed properties and higher performance-related incentive fees.

## Loans Receivable and Related Interest Income

| (\$000s)                     | Q4 2016 | Q4 2015 | Change | 2016  | 2015  | Change |
|------------------------------|---------|---------|--------|-------|-------|--------|
| Interest on loans receivable | 282     | 361     | (79)   | 1,252 | 1,142 | 110    |

At December 31, 2016, mezzanine and other loans of \$9.1 million were due from the entities affiliated with Batimo. In Q3 2016, one land loan of \$1.9 million was replaced by a mezzanine loan of \$2.7 million for the development of Chartwell L'Unique Phase III, a 163-suite addition to one of our retirement residences in Quebec. Mezzanine loans and other loans with Batimo are secured by various charges against related real estate, guaranteed by Batimo and contain certain cross-collateralization and cross-default provisions.

In Q2 2016, vendor take back ("VTB") loans in the amount of \$6.0 million were repaid. At December 31, 2016, one VTB loan totalling \$1.4 million remained outstanding. The loan was repaid on February 22, 2017.

Loans receivable bear interest at rates ranging from 8.0% to 10.0% and are in good standing.

Changes in interest earned on loans receivable from period to period are a result of changes in loan balances outstanding.

## General, Administrative and Trust Expenses

| (\$000s, except percentage of revenue)                 | Q4 2016 | Q4 2015 | Change | 2016   | 2015   | Change |
|--|---------|---------|--------|--------|--------|--------|
| G&A expenses   | 8,227   | 7,581   | 646    | 33,838 | 30,771 | 3,067  |
| G&A expenses as a percentage of revenue <sup>(1)</sup> | 3.8%    | 3.7%    | 0.1pp  | 4.0%   | 4.0%   | -      |

(1) Non-GAAP; refer to the "Non-GAAP Measures – G&A Expenses as a Percentage of Revenue" section of this MD&A for a discussion of the significance of this metric and a reconciliation of revenue used in the calculation of this measure to our Financial Statements.

In 2016, G&A expenses increased \$3.1 million or 10.0%, primarily due to higher staffing costs incurred to provide enhanced support to our communities, including new acquisitions and developments, and higher unit-based compensation costs of \$1.6 million primarily as a result of the appreciation in value of our Trust Units, partially offset by reversal of accruals for employee benefit costs of \$0.3 million on settlement of a related claim in Q1 2016.

G&A expenses, as a percentage of revenue at Chartwell's Interest, were 4.0% in 2016, in line with 2015.

**Fourth Quarter:** G&A expenses increased \$0.6 million or 8.5% in Q4 2016, primarily due to higher staffing costs incurred to provide enhanced support to our communities, including new acquisitions and developments, as well as higher unit-based compensation costs of \$0.2 million primarily resulting from the appreciation in value of our Trust Units.

G&A expenses, as a percentage of revenue at Chartwell's Interest, were 3.8% in Q4 2016 compared to 3.7% in Q4 2015.

## Finance Costs

| (\$000s)   | Q4 2016 | Q4 2015 | Change  | 2016    | 2015   | Change  |
|--|---------|---------|---------|---------|--------|---------|
| Mortgages and loans payable  |         |         |         |         |        |         |
| Same property <sup>(1)</sup>   | 12,660  | 13,244  | (584)   | 51,372  | 55,234 | (3,862) |
| Acquisitions and other <sup>(1)</sup>  | 3,613   | 2,617   | 996     | 14,577  | 7,226  | 7,351   |
|  | 16,273  | 15,861  | 412     | 65,949  | 62,460 | 3,489   |
| Convertible debentures   | -       | 1,938   | (1,938) | 2,611   | 7,690  | (5,079) |
| Credit Facility and other interest expense   | 1,280   | 596     | 684     | 3,912   | 2,737  | 1,175   |
|  | 17,553  | 18,395  | (842)   | 72,472  | 72,887 | (415)   |
| Amortization of financing costs and debt mark-to-market adjustments <sup>(1)</sup> | (224)   | (63)    | (161)   | (1,084) | (139)  | (945)   |
|  | 17,329  | 18,332  | (1,003) | 71,388  | 72,748 | (1,360) |
| Interest capitalized to properties under development                               | (419)   | (71)    | (348)   | (1,085) | (239)  | (846)   |
| Distributions on Class B Units recorded as interest expense                        | 229     | 281     | (52)    | 904     | 956    | (52)    |
|  | 17,139  | 18,542  | (1,403) | 71,207  | 73,465 | (2,258) |
| Less: Share of finance costs from joint ventures                                   | 557     | 474     | 83      | 2,429   | 1,388  | 1,041   |
| Total finance costs  | 16,582  | 18,068  | (1,486) | 68,778  | 72,077 | (3,299) |

(1) Non-GAAP; reported at Chartwell's Interest.

Interest expense on the same property portfolio decreased \$3.9 million in 2016 and decreased \$0.6 million in Q4 2016, primarily due to lower interest rates achieved on mortgage renewals and lower outstanding loan balances.

Interest expense on the acquisitions and other portfolio increased \$7.4 million in 2016 and \$1.0 million in Q4 2016 primarily due to the high level of acquisition activity and related financings in 2015 and 2016.

Credit Facility and other interest expense increased \$1.2 million in 2016 and \$0.7 million in Q4 2016, primarily due to higher balances outstanding on our Credit Facilities partially offset by reduced interest rates achieved on renewal of our Credit Facilities in June 2015.

Changes in amortization of financing costs and debt mark-to-market adjustments are primarily a result of amortization of debt mark-to-market adjustments on certain 2015 and 2016 acquisitions.

Interest capitalized to properties under development increased by \$0.8 million in 2016 and \$0.3 million in Q4 2016, primarily due to higher levels of development activity.

## Other Income/(Expense)

| (\$000s)   | Q4 2016 | Q4 2015 | Change | 2016    | 2015     | Change  |
|--|---------|---------|--------|---------|----------|---------|
| Transaction costs arising on business acquisitions and dispositions <sup>(1)</sup> | 95      | (4,468) | 4,563  | (5,400) | (13,834) | 8,434   |
| Interest and other income <sup>(1)</sup>   | 823     | 911     | (88)   | 3,266   | 3,584    | (318)   |
| Gain on remeasurement to fair value of existing interest                           | -       | -       | -      | 5,187   | 10,452   | (5,265) |
| Gain/(loss) on sale of assets <sup>(1)</sup>                                       | (78)    | 266     | (344)  | 1,961   | 4,974    | (3,013) |
| Reversal of impairment/(impairment) of PP&E  | 1,110   | (3,000) | 4,110  | (6,390) | (3,755)  | (2,635) |
| Property lease expense <sup>(1)</sup>  | (77)    | (98)    | 21     | (396)   | (400)    | 4       |
|  | 1,873   | (6,389) | 8,262  | (1,772) | 1,021    | (2,793) |
| Less: Share of other income/(expense) from joint ventures                          | 25      | (1,749) | 1,774  | 213     | (1,648)  | 1,861   |
| Total other income/(expense)   | 1,848   | (4,640) | 6,488  | (1,985) | 2,669    | (4,654) |

(1) Non-GAAP; reported at Chartwell's Interest.

Transaction costs arising on business acquisitions and dispositions are expensed as incurred and fluctuate from period to period based on the timing and volume of transactions.

Interest and other income primarily relates to interest on capital funding receivable.

As described in the "Significant Events" section of this MD&A, the Kamloops acquisition was completed in steps and we remeasured our original 50% interest in this property to fair value. This remeasurement resulted in an increase in value of \$5.2 million which has been recognized as a gain in other income/expense in the consolidated statements of comprehensive income/loss.

Gain on sale of assets in 2016 includes \$0.7 million related to the sale of three non-core properties in Quebec as described in the "Significant Events" section of this MD&A. Gain on sale of assets in 2015 includes \$3.3 million related to the sale of one other non-core property in Quebec.

In 2016, we recorded an impairment provision of \$7.5 million related to two of our properties in Ontario and Quebec. We also reversed a previously-recorded impairment provision of \$1.1 million related to one property in Quebec that has shown significant operational improvement in recent years.

In 2015, we recorded an impairment provision of \$5.4 million on four properties in Quebec and Ontario and reversed a previously-recorded impairment provision of \$1.6 million on two other properties in Quebec which were subsequently sold.

## Other Items

| (\$000s)   | Q4 2016  | Q4 2015  | Change  | 2016      | 2015      | Change   |
|--|----------|----------|---------|-----------|-----------|----------|
| Depreciation of PP&E <sup>(1)</sup>  | (40,266) | (35,682) | (4,584) | (153,446) | (117,583) | (35,863) |
| Amortization of intangible assets <sup>(1)</sup>   | (289)    | (155)    | (134)   | (1,185)   | (678)     | (507)    |
| Changes in fair value of financial instruments and foreign exchange (loss)/gain <sup>(1)</sup> | 8,360    | (6,417)  | 14,777  | (14,601)  | (2,331)   | (12,270) |
| Current income tax (expense)/benefit   | (27)     | 1,456    | (1,483) | (27)      | (1,340)   | 1,313    |
| Deferred income tax (expense)/benefit  | -        | 8,216    | (8,216) | -         | 8,216     | (8,216)  |

(1) Non-GAAP; reported at Chartwell's Interest.

Depreciation of PP&E increased \$35.9 million in 2016 and increased \$4.6 million in Q4 2016, primarily due to depreciation of properties acquired in 2015 and 2016.

Changes in fair value of financial instruments and foreign exchange (loss)/gain result from changes in the market value of the underlying financial instruments and estimated values of amounts receivable under income guarantees. These amounts are expected to fluctuate from period to period due to changes in financial markets and operating performance of properties, subject to income guarantees.

The increase in fair value adjustments in 2016 is primarily due to the increases in recorded liabilities for Trust Units acquired under the Executive Unit Purchase Plan ("EUPP"), Class B Units and DTUs, as a result of the increased trading prices of our Trust Units, as well as the increase in fair value of our convertible debentures which were redeemed in Q2 2016. The market price of our Trust Units on December 31, 2016, was \$14.67 per unit compared to \$12.76 per unit on December 31, 2015.

The current tax expense decreased \$1.3 million in 2016. In 2015, we incurred \$1.3 million of income taxes in one of our subsidiaries attributable to the capital gain on settlement of the foreign exchange swap arrangements entered into on the sale of the U.S. Portfolio. The current tax expense in 2016 relates to income in a corporate subsidiary acquired during the year.

The deferred tax benefit of \$8.2 million in 2015 relates to recognition of previously unrecognized tax benefits from the acquisition of a property accounted for as a business combination.



## Summary of Results of Operations by Segment

The following section provides an analysis of the operating performance of each of our operating segments in 2016 and Q4 2016.

Where a community provides more than one level of care, it has been designated to a segment according to the predominant level of care provided, type of licensing and funding provided and internal management responsibility.

All results are presented at Chartwell's Interest (refer to the "Non-GAAP Measures" section of this MD&A.)

### Retirement Operations

The following table summarizes the composition of our Retirement Operations:

|  | Properties | Composition of Suites |               |              |            |            | Total         |
|--|------------|-----------------------|---------------|--------------|------------|------------|---------------|
|  |            | IL                    | ISL           | AL           | MC         | LTC        |               |
| <b>Same Property</b>                         |            |                       |               |              |            |            |               |
| 100% owned                                   | 90         | 771                   | 9,147         | 425          | 124        | 483        | 10,950        |
| 50% owned                                    | 40         | 499                   | 6,642         | 376          | 63         | -          | 7,580         |
| Total same property owned                    | 130        | 1,270                 | 15,789        | 801          | 187        | 483        | 18,530        |
| <b>Acquisitions, Development &amp; Other</b> |            |                       |               |              |            |            |               |
| 100% owned – operating                       | 19         | -                     | 2,235         | 301          | 50         | -          | 2,586         |
| Partially owned – operating <sup>(1)</sup>   | 6          | 73                    | 464           | 83           | 17         | -          | 637           |
| Total acquisitions, development & other      | 25         | 73                    | 2,699         | 384          | 67         | -          | 3,223         |
| <b>Total</b>                                 | <b>155</b> | <b>1,343</b>          | <b>18,488</b> | <b>1,185</b> | <b>254</b> | <b>483</b> | <b>21,753</b> |

(1) We own an 85% interest in four of these properties (includes one medical office building) and a 50% interest in two properties.

In Q1 2016, we removed 45 LTC beds at one of our retirement communities from our available suite count. These beds were operated on an interim basis under a short-term government contract that has now expired. We are redeveloping this section of our property to offer ISL accommodations.

The following table presents the results of operations of our Retirement Operations:

| (\$000s, except occupancy rates)                  | Q4 2016 | Q4 2015 | Change | 2016    | 2015    | Change |
|---|---------|---------|--------|---------|---------|--------|
| <b>Revenue</b>                                    |         |         |        |         |         |        |
| Same property                                     | 122,991 | 118,901 | 4,090  | 484,571 | 462,893 | 21,678 |
| Acquisitions, development and other               | 32,859  | 25,490  | 7,369  | 126,391 | 67,627  | 58,764 |
| Total revenue                                     | 155,850 | 144,391 | 11,459 | 610,962 | 530,520 | 80,442 |
| <b>Direct Property Operating Expenses</b>         |         |         |        |         |         |        |
| Same property                                     | 76,646  | 74,230  | 2,416  | 298,040 | 289,716 | 8,324  |
| Acquisitions, development and other               | 19,843  | 15,663  | 4,180  | 75,214  | 48,385  | 26,829 |
| Total direct property operating expenses          | 96,489  | 89,893  | 6,596  | 373,254 | 338,101 | 35,153 |
| <b>Net Operating Income</b>                       |         |         |        |         |         |        |
| Same property                                     | 46,345  | 44,671  | 1,674  | 186,531 | 173,177 | 13,354 |
| Acquisitions, development and other               | 13,016  | 9,827   | 3,189  | 51,177  | 19,242  | 31,935 |
| Total net operating income                        | 59,361  | 54,498  | 4,863  | 237,708 | 192,419 | 45,289 |
| Weighted average occupancy rate - same property   | 92.8%   | 92.6%   | 0.2pp  | 92.6%   | 91.2%   | 1.4pp  |
| Weighted average occupancy rate – total portfolio | 91.2%   | 90.6%   | 0.6pp  | 91.0%   | 89.3%   | 1.7pp  |

Same property revenue increased 4.7% in 2016, primarily due to higher occupancies and regular annual rental rate increases in line with competitive market conditions.

Same property direct operating expenses increased 2.9% in 2016, primarily due to higher staffing costs incurred to support growing occupancies and to improve services delivered to our residents as well as higher food, supply, administrative and property tax expenses, partially offset by lower insurance and bad debt expenses.

Same property NOI increased \$13.4 million or 7.7% in 2016 as follows:

- Our Ontario retirement platform same property NOI increased \$5.2 million or 7.1%, primarily due to higher occupancies and regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing, utilities and administrative expenses.
- Our Western Canada platform same property NOI increased \$3.5 million or 8.2%, primarily due to higher occupancies, regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing, food and administrative expenses.
- Our Quebec platform same property NOI increased \$4.6 million or 8.1%, primarily due to higher occupancies, regular annual rental rate increases in line with competitive market conditions and lower utilities expenses, partially offset by higher staffing, food and administrative expenses.

The following table summarizes our annual weighted average occupancy rates in our retirement same property portfolio:

|                | 2016  | 2015  | Change |
|----------------|-------|-------|--------|
| Ontario        | 88.8% | 87.6% | 1.2pp  |
| Western Canada | 95.6% | 93.2% | 2.4pp  |
| Quebec         | 94.5% | 93.5% | 1.0pp  |
| Total          | 92.6% | 91.2% | 1.4pp  |

In 2016, occupancies in our retirement same property portfolio were 92.6%, a 1.4 percentage point increase from 2015.

**Fourth Quarter:** Same property NOI increased \$1.7 million or 3.7% in Q4 2016 as follows:

- Our Ontario retirement platform same property NOI increased \$0.4 million or 1.9%, primarily due to regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing, utilities and marketing expenses.
- Our Western Canada platform same property NOI increased \$0.4 million or 3.9%, primarily due to higher occupancies, regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing, utilities and marketing expenses.
- Our Quebec platform same property NOI increased \$0.9 million or 6.0%, primarily due to regular annual rental rate increases in line with competitive market conditions, partially offset by higher staffing and administrative expenses.

The following table summarizes our quarterly weighted average occupancy rates in our retirement same property portfolio:

|                | Q4 2016 | Q4 2015 | Change  | Q3 2016 | Change  |
|----------------|---------|---------|---------|---------|---------|
| Ontario        | 88.9%   | 89.2%   | (0.3pp) | 88.6%   | 0.3pp   |
| Western Canada | 96.9%   | 94.7%   | 2.2pp   | 95.8%   | 1.1pp   |
| Quebec         | 94.5%   | 94.7%   | (0.2pp) | 94.6%   | (0.1pp) |
| Total          | 92.8%   | 92.6%   | 0.2pp   | 92.5%   | 0.3pp   |

## Long Term Care Operations

The following table summarizes the composition of our Long Term Care Operations:

|                            | Properties | Composition of Suites |     |    |    |       | Total |
|----------------------------|------------|-----------------------|-----|----|----|-------|-------|
|                            |            | IL                    | ISL | AL | MC | LTC   |       |
| Same property - 100% owned | 24         | -                     | 133 | -  | -  | 3,000 | 3,133 |
| Total                      | 24         | -                     | 133 | -  | -  | 3,000 | 3,133 |

The following table presents the results of operations of our Long Term Care Operations:

| (\$000s, except occupancy rates)                | Q4 2016 | Q4 2015 | Change  | 2016    | 2015    | Change  |
|---|---------|---------|---------|---------|---------|---------|
| Same property revenue                           | 57,500  | 57,295  | 206     | 223,771 | 219,607 | 4,164   |
| Same property direct operating expenses         | 51,143  | 50,397  | 746     | 196,142 | 191,913 | 4,229   |
| Total net operating income                      | 6,357   | 6,898   | (540)   | 27,629  | 27,694  | (65)    |
| Weighted average occupancy rate – same property | 98.0%   | 98.8%   | (0.8pp) | 98.4%   | 98.7%   | (0.3pp) |

Same property NOI decreased 0.2% in 2016, primarily due to lower ancillary services revenues and higher utilities expenses, partially offset by higher preferred accommodation revenues.

Weighted average occupancy in the same property portfolio was 98.4% in 2016 compared to 98.7% in 2015.

**Fourth Quarter:** Same property NOI decreased 7.8% in Q4 2016, primarily due to lower ancillary services revenues and higher utilities expenses, partially offset by higher preferred accommodation revenues

Weighted average occupancy was 98.0% in Q4 2016 compared to 98.8% in Q4 2015.

## Financial Position

### Balance Sheet Analysis

The following table summarizes the significant changes in our assets, liabilities and equity per our Financial Statements for December 31, 2016 compared to December 31, 2015.

|                          | Increase / (Decrease)<br>(\$millions) | Explanation   |
|--------------------------|---------------------------------------|---|
| <b>Total assets</b>      | <b>197.3</b>                          | Total assets increased primarily due to acquisitions and capital additions to properties, partially offset by depreciation and amortization charges and property dispositions.                          |
| <b>Total liabilities</b> | <b>101.9</b>                          | Total liabilities increased primarily due to liabilities related to newly-acquired properties, new mortgage financings and credit line draws, partially offset by redemption of convertible debentures. |
| <b>Equity</b>            | <b>95.4</b>                           | The increase in equity is primarily due to conversion of convertible debentures, partially offset by distributions on Trust Units and net income in the period.   |

## Outstanding Units Data

The following table summarizes changes in the number of outstanding units during 2016:

|  | Trust Units | Trust Units<br>under EUPP | Class B Units | Deferred<br>Trust Units | Total       |
|--|-------------|---------------------------|---------------|-------------------------|-------------|
| Balance December 31, 2015  | 176,401,201 | 1,553,634                 | 1,641,323     | 823,166                 | 180,419,324 |
| Trust Units issued pursuant to the<br>Distribution Reinvestment Plan<br>("DRIP") | 1,418,778   | -                         | -             | -                       | 1,418,778   |
| Trust Units issued under the<br>Executive Unit Purchase Plan<br>("EUPP")         | -           | 79,454                    | -             | -                       | 79,454      |
| Trust Units surrendered for<br>cancellation under EUPP                           | -           | (14,134)                  | -             | -                       | (14,134)    |
| Trust Units released on settlement of<br>EUPP receivable                         | 103,566     | (103,566)                 | -             | -                       | -           |
| Issuance of Class B Units  | -           | -                         | -             | -                       | -           |
| Exchange of Class B Units into Trust<br>Units                                    | 14,150      | -                         | (14,150)      | -                       | -           |
| DTUs issued  | -           | -                         | -             | 71,573                  | 71,573      |
| DTU distributions  | -           | -                         | -             | 33,879                  | 33,879      |
| Trust Units issued on conversion of<br>convertible debentures                    | 12,157,779  | -                         | -             | -                       | 12,157,779  |
| Balance December 31, 2016  | 190,095,474 | 1,515,388                 | 1,627,173     | 928,618                 | 194,166,653 |

## Liquidity and Capital Commitments

### Liquidity

Our cash commitments include payments related to mortgages, contractual purchase obligations, obligations under operating leases as well as cash distributions to unitholders.

Our principal source of liquidity is cash flow from operations. At December 31, 2016, we had cash on hand in the amount of \$38.3 million, including cash from Chartwell's Interest in equity-accounted investments of \$8.2 million. In order to provide for our operating and capital requirements, we have put in place credit facilities and arranged mortgage debt financing. At times we may also raise funds through the capital markets. At December 31, 2016, the available borrowing capacity under our Credit Facilities was \$73.8 million.

Our credit facility with a syndicate of Canadian chartered banks ("Credit Facility 1") has a maximum committed capacity of \$200.0 million and matures on June 1, 2018. Based on the level of our debt to adjusted gross book value of assets ("D/GBV"), as defined in the related credit agreement, the amounts drawn on Credit Facility 1 bear interest ranging from the bank's prime rate ("Prime") plus 0.65% to 0.80%, or the applicable banker's acceptance rate ("BA") plus 1.65% to 1.80%. It is secured by first and second charges on certain of our properties and includes minimum equity requirements and covenants which include limitations on the amounts of distributions that can be paid to unitholders. At December 31, 2016, based on security provided, the maximum available borrowing capacity under Credit Facility 1 was \$200.0 million, of which \$4.2 million was utilized to support outstanding letters of credit and \$130.0 million was drawn, leaving available borrowing capacity at \$65.8 million. Based on our D/GBV as defined in the Credit Facility 1 agreement, as of December 31, 2016, the interest rate applicable to the amounts drawn on Credit Facility 1 in Q1 2017 will be equal to Prime plus 0.65% or BA plus 1.65%.

On June 17, 2016, we arranged a new \$50.0 million credit facility with a Canadian chartered bank ("Credit Facility 2," and together with Credit Facility 1, the "Credit Facilities") maturing on June 1, 2018. Under the

new terms, Credit Facility 2 bears interest ranging from Prime plus 0.60% to 0.75% or BA plus 1.60% to 1.75% depending on the level of our D/GBV, as defined in the related credit agreement. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. Credit Facility 2 is secured by second charges on specific properties. At December 31, 2016, \$42.0 million had been drawn and the maximum available borrowing capacity under Credit Facility 2 was \$50.0 million based on the security provided. Based on our D/GBV, as of December 31, 2016, the interest rate applicable to the amounts drawn on Credit Facility 2 in Q1 2017 will be equal to Prime plus 0.60% or BA plus 1.60%.

### Indebtedness Ratio:

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 65% of adjusted gross book value of assets ("GBV") (the "Indebtedness Ratio").

The following table presents the calculation of our Indebtedness Ratio at Chartwell's Interest:

| (\$000s)  | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Mortgages payable (contractual amount) <sup>(1)</sup>                                 | 1,722,667         | 1,610,183         |
| Credit Facilities   | 172,000           | 32,000            |
| Convertible debentures (at face value)  | -                 | 134,851           |
| Indebtedness  | 1,894,667         | 1,777,034         |
| Total assets  | 2,878,609         | 2,680,917         |
| Accumulated depreciation and amortization <sup>(2)</sup>                              | 681,207           | 581,340           |
| Cumulative transaction costs on business combinations                                 | 37,775            | 32,723            |
| Change in GBV on transition to IFRS   | 276,153           | 278,581           |
| GBV of assets   | 3,873,744         | 3,573,561         |
| Less: Assets financed by deferred purchase consideration on acquisition of properties | 1,506             | 1,506             |
| GBV   | 3,872,238         | 3,572,055         |
| Indebtedness Ratio <sup>(3) (4)</sup>   | 48.9%             | 49.7%             |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Chartwell's Interest" section of this MD&A for a reconciliation of this amount.

(2) December 31, 2016 includes accumulated depreciation and amortization related to fully amortized assets of \$179.1 million (December 31, 2015 – nil).

(3) Excludes assets held for sale and related liabilities.

(4) Non-GAAP; refer to the "Non-GAAP Measures – Indebtedness Ratio" section of this MD&A for a discussion of Indebtedness Ratio.

In addition to the Indebtedness Ratio restrictions under our Declaration of Trust, we employ supplemental targets for managing our debt portfolio and monitor our Interest Coverage Ratio and Net Debt to Adjusted EBITDA Ratio.

### Interest Coverage Ratio:

We target to maintain our Interest Coverage Ratio above 1.65.

The following table summarizes our Interest Coverage Ratio at Chartwell's Interest:

| (\$000s, except Interest Coverage Ratio)   | Q4 2016 | Q4 2015 | 2016    | 2015    |
|--|---------|---------|---------|---------|
| Interest expense including capitalized interest  | 17,329  | 18,332  | 71,388  | 72,748  |
| Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") <sup>(1)</sup> | 62,428  | 58,245  | 250,687 | 206,511 |
| Interest Coverage Ratio <sup>(2)</sup>   | 3.60    | 3.18    | 3.51    | 2.84    |
| Target Interest Coverage Ratio   | >1.65   |         |         |         |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

(2) Non-GAAP; refer to the "Non-GAAP Measures – Interest Coverage Ratio" section of this MD&A for a discussion of Interest Coverage Ratio.

The following table presents the calculation of Adjusted EBITDA at Chartwell's Interest:

| (\$000s)  | Q4 2016 | Q4 2015 | 2016    | 2015     |
|---|---------|---------|---------|----------|
| Net income/(loss) for the period - continuing operations                        | 12,826  | (1,361) | (710)   | 12,139   |
| <i>Add (Subtract):</i>  |         |         |         |          |
| Current income tax expense/(benefit)  | 27      | (1,456) | 27      | 1,340    |
| Impairment provision  | (1,110) | 3,000   | 6,390   | 3,755    |
| Gain on remeasure to fair value of existing interest                            | -       | -       | (5,187) | (10,452) |
| Deferred income tax   | -       | (8,216) | -       | (8,216)  |
| Transaction costs arising on business acquisitions and dispositions             | (95)    | 4,468   | 5,400   | 13,834   |
| Finance costs   | 17,139  | 18,542  | 71,207  | 73,465   |
| Depreciation of PP&E  | 40,266  | 35,682  | 153,446 | 117,583  |
| Amortization of intangible assets   | 289     | 155     | 1,185   | 678      |
| (Gain)/loss on sale of assets   | 78      | (266)   | (1,961) | (4,974)  |
| Changes in fair value of financial instruments and foreign exchange loss/(gain) | (8,360) | 6,417   | 14,601  | 2,331    |
| Principal portion of capital funding receivable from Health Authorities         | 1,368   | 1,280   | 6,289   | 5,028    |
| Adjusted EBITDA <sup>(1)</sup>  | 62,428  | 58,245  | 250,687 | 206,511  |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

### Net Debt to Adjusted EBITDA Ratio:

In our calculation of Net Debt to Adjusted EBITDA, we define Net Debt as indebtedness less cash on hand at the end of the reporting period and use trailing 12-month Adjusted EBITDA including the annualized effect of acquisitions and dispositions completed during such 12-month period.

The following table summarizes our Net Debt to Adjusted EBITDA Ratio at December 31, 2016 and 2015, at Chartwell's Interest:

| (\$000s, except Net Debt to Adjusted EBITDA Ratio)  | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Trailing 12-month Adjusted EBITDA <sup>(1)</sup>  | 250,687           | 206,511           |
| <i>Add (Subtract):</i>  |                   |                   |
| Adjustment for part-year acquisitions   | 6,345             | 23,780            |
| Adjustment for part-year dispositions   | (679)             | 1,207             |
| Trailing 12-month Adjusted EBITDA (net of part-year acquisitions and dispositions and assets held for sale) | 256,353           | 231,498           |
| Indebtedness <sup>(2)</sup>   | 1,894,667         | 1,777,034         |
| Less: Cash and cash equivalents   | 38,275            | 8,854             |
| Net debt  | 1,856,392         | 1,768,180         |
| Net Debt to Adjusted EBITDA Ratio <sup>(3)</sup>  | 7.2               | 7.6               |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted EBITDA" section of this MD&A for a discussion of Adjusted EBITDA.

(2) Non-GAAP; refer to the "Indebtedness Ratio" discussion above for the calculation of this amount. Excludes indebtedness related to assets held for sale.

(3) Non-GAAP; refer to the "Non-GAAP Measures – Net Debt to Adjusted EBITDA Ratio" section of this MD&A for a discussion of Net Debt to Adjusted EBITDA Ratio.

## Debt Strategy

Our debt portfolio currently consists of property-specific secured mortgages and secured and unsecured credit facilities. Our debt management objectives are to:

- Access low-cost, long-term, fixed-rate debt and short-term, variable-rate construction financing;
- Manage interest rate risk by spreading debt maturities over time with the target of having no more



than approximately 10% of our total debt maturing in any year; and

- Proactively manage our short-term maturities and where appropriate, refinance maturing mortgages early with long-term debt.

## Mortgage Debt

We monitor our mortgage portfolio at Chartwell's Interest.

The following table summarizes the changes in our mortgage portfolio in 2016:

|  | Balance<br>(\$000s) | Weighted<br>Average<br>Term to Maturity<br>(Years) | Weighted<br>Average<br>Interest Rate of<br>Maturing Debt | % CMHC<br>Insured |
|--|---------------------|--|--|-------------------|
| Balance at December 31, 2015                   | 1,610,183           | 7.7  | 4.13%  | 58%               |
| Matured in the period                          | (115,309)           | -  | 4.41%  | 37%               |
| Assumed by purchasers on property dispositions | (17,872)            | 6.2  | 3.99%  | 100%              |
| Assumed on acquisition of properties           | 80,510              | 4.8  | 4.39%  | 27%               |
| New mortgage financing                         | 218,035             | 5.3  | 2.56%  | 63%               |
| Regular amortizing principal repayments        | (52,880)            | n/a  | n/a  | n/a               |
| Balance at December 31, 2016                   | 1,722,667           | 6.9  | 3.84%  | 59%               |

New mortgage financing includes CMHC-insured mortgages totalling \$122.1 million with a weighted average interest rate of 2.42% and weighted average term to maturity of 7.8 years, bridge loans on certain non-stabilized properties totalling \$50.9 million with a weighted average interest rate of 2.99% and weighted average term to maturity of 1.8 years and conventional mortgages of \$45.0 million with a weighted average interest rate of 2.43% and weighted average term to maturity of 2.5 years.

The following table provides selected financial statistics for our mortgage debt portfolio at Chartwell's Interest:

|                                  | At December 31, 2016 |               | At December 31, 2015 |           |
|----------------------------------|----------------------|---------------|----------------------|-----------|
|                                  | Fixed Rate           | Variable Rate | Total                | Total     |
| Amount (\$000s)                  | 1,690,192            | 32,475        | 1,722,667            | 1,610,183 |
| Weighted average interest rate   | 3.86%                | 2.89%         | 3.84%                | 4.13%     |
| Average term to maturity (years) | 6.9                  | 4.6           | 6.9                  | 7.7       |

We generally have access to low-cost mortgage financing insured by Canada Mortgage and Housing Corporation ("CMHC"). As of December 31, 2016, approximately 59% of our total mortgage debt was CMHC insured. We intend to continue financing our properties through this program, including converting conventional mortgages to CMHC-insured debt upon renewal. On December 5, 2015, we entered into a large borrower agreement ("LBA") with CMHC. We expect the LBA will allow continued access to CMHC-insured financing and will streamline the CMHC approval process of new mortgages. The LBA provides for, among other things, the cross-collateralization of mortgage loans for our largest CMHC-insured lenders, and contains certain financial and operating covenants.

The following table summarizes our variable-rate mortgages at Chartwell's Interest as at December 31, 2016:

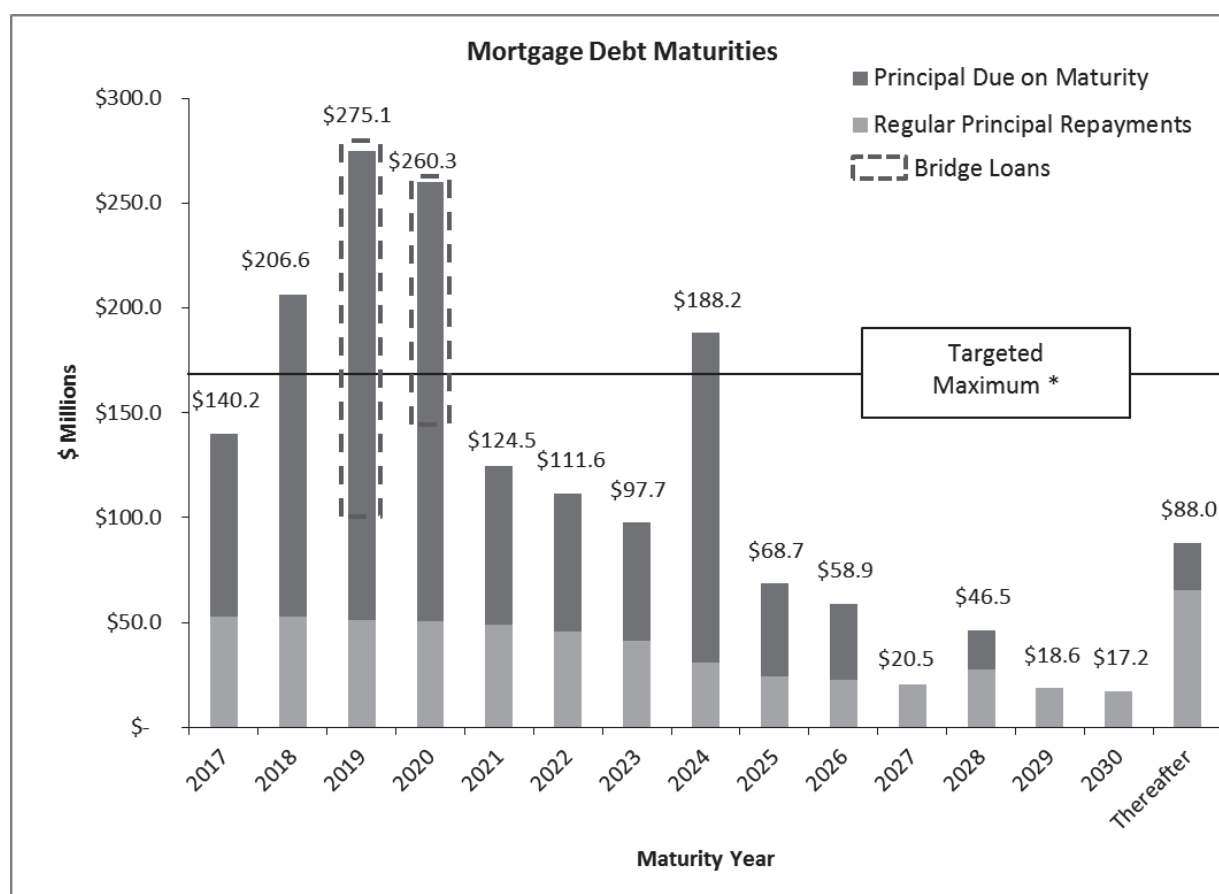
| (\$000s, except number of properties)  | Number of<br>Properties | December 31,<br>2016 | Number of<br>Properties | December 31,<br>2015 |
|--|-------------------------|----------------------|-------------------------|----------------------|
| Mortgages on non-stabilized properties | 2                       | 11,085               | 9                       | 162,835              |
| Mortgages on stabilized properties     | 4                       | 21,390               | 6                       | 60,221               |
| Total                                  | 6                       | 32,475               | 15                      | 223,056              |

In 2016, we continued the implementation of our strategies to mitigate interest rate risks in our mortgage portfolio by refinancing properties with long-term, fixed-rate debt and employing interest rate swap arrangements on loans with shorter term maturities.

The following table outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates at Chartwell's Interest as at December 31, 2016:

| (\$000s)  | Regular<br>Principal<br>Payments | Principal<br>Due at<br>Maturity | Total     | % of Total<br>Debt | Weighted Average<br>Interest Rate of<br>Maturing Debt |
|---|----------------------------------|---------------------------------|-----------|--------------------|---|
| Year  |                                  |                                 |           |                    |   |
| 2017  | 52,964                           | 87,233                          | 140,197   | 8%                 | 4.24%   |
| 2018  | 52,601                           | 154,021                         | 206,622   | 12%                | 3.54%   |
| 2019  | 51,410                           | 223,726                         | 275,136   | 16%                | 2.74%   |
| 2020  | 50,893                           | 209,398                         | 260,291   | 15%                | 3.09%   |
| 2021  | 48,843                           | 75,687                          | 124,530   | 7%                 | 4.36%   |
| 2022  | 45,513                           | 66,075                          | 111,588   | 6%                 | 3.47%   |
| 2023  | 41,401                           | 56,326                          | 97,727    | 6%                 | 4.20%   |
| 2024  | 30,786                           | 157,445                         | 188,231   | 11%                | 3.96%   |
| 2025  | 24,349                           | 44,335                          | 68,684    | 4%                 | 2.87%   |
| 2026  | 22,488                           | 36,391                          | 58,879    | 3%                 | 2.43%   |
| 2027  | 20,503                           | -                               | 20,503    | 1%                 | 0.00%   |
| 2028  | 27,610                           | 18,925                          | 46,535    | 3%                 | 4.20%   |
| 2029  | 18,580                           | -                               | 18,580    | 1%                 | 0.00%   |
| 2030  | 17,225                           | -                               | 17,225    | 1%                 | 3.78%   |
| Thereafter  | 65,686                           | 22,253                          | 87,939    | 6%                 | 4.18%   |
| Total   | 570,852                          | 1,151,815                       | 1,722,667 | 100%               |   |
| Mark-to-market adjustments arising on acquisition |                                  |                                 | 19,907    |                    |   |
| Less: Financing costs                             |                                  |                                 | (23,001)  |                    |   |
| Total Mortgage Debt                               |                                  |                                 | 1,719,573 |                    |   |

The following chart provides the breakdown of our mortgage debt maturities at Chartwell's Interest:



\* 10% of total mortgage debt = \$172.3 million

Included in 2019 and 2020 maturities are \$175.9 million and \$120.8 million, respectively, of loans bearing interest at variable rates or at rates fixed through the use of interest rate swaps of various durations. These loans are expected to be refinanced with CMHC-insured, long-term debt upon the properties achieving stabilized occupancy at or prior to maturity of these loans.

Subsequent to December 31, 2016, we arranged additional CMHC-insured, top-up financings on eight properties totalling \$40.7 million with maturities co-terminous with the existing mortgages on these properties. The average term to maturity of these top-up financings is 13 years bearing a weighted average interest rate of 2.9%.

## Convertible Debentures

On April 12, 2016, we issued a redemption notice to the holders of our 5.7% convertible debentures with an outstanding principal balance of \$131.9 million. Under the terms of the trust indentures governing these debentures, before May 16, 2016 (the "Redemption Date") the holders had the right to convert their debentures into Trust Units at a conversion price of \$11.00 per unit. We elected to satisfy our redemption obligations for any unconverted convertible debentures by issuing Trust Units at 95% of the market price on the Redemption Date, as provided for in the trust indentures.

## Capital Investments

We regularly reinvest capital in our owned property portfolio. These investments are made with the goal of growing our property NOI. The strategic allocation of our resources to such capital investments is driven by three key objectives:

1. Improve competitive positioning of our properties in their markets to support growth in occupancies and resident revenue.
2. Improve operating efficiencies through provision of enhanced services to our residents and cost containment strategies, including investments in energy management projects.
3. Maintain the quality of our portfolio in compliance with applicable laws and regulations to maintain and grow the value of our real estate.

As part of our acquisition underwriting, we assess the long-term capital needs of the acquired properties and consider these capital requirements in our determination of the purchase price.

The following table summarizes our capital investments in 2016 and 2015 at Chartwell's Interest:

| (\$000s)                                   | 2016   | 2015 <sup>(1)</sup> | Change |
|--|--------|---------------------|--------|
| Building improvements                      | 20,105 | 21,071              | (966)  |
| Mechanical and electrical ("M&E")          | 11,491 | 11,415              | 76     |
| Suite improvements and upgrades            | 13,669 | 11,956              | 1,713  |
| Interior improvements and upgrades         | 4,876  | 3,473               | 1,403  |
| Furniture, fixtures and equipment ("FF&E") | 7,429  | 6,555               | 874    |
| Communications and information systems     | 6,034  | 4,896               | 1,138  |
| Total – same property                      | 63,604 | 59,366              | 4,238  |
| Add: Acquisitions and other                | 10,504 | 5,172               | 5,332  |
| Total capital investments                  | 74,108 | 64,538              | 9,570  |

(1) Excludes results of discontinued operations.

### Building Improvements:

This category primarily includes investments in facades, balconies, garages, elevators and parking lots. In addition to preserving the existing revenue generating capacity and value of the properties, these investments support occupancy growth due to improved physical appearance of the property, growth in

ancillary property revenues (i.e. parking rates) and operating cost savings (i.e. energy efficient windows and doors, improved building insulation).

In 2016, we completed 80 major building improvement projects valued over \$50,000 each, totalling \$10.6 million (79 projects in 2015 for a total of \$17.0 million).

In addition, this category includes the acquisitions of 13 condominium suites in two of our properties in British Columbia totalling \$3.4 million (10 condominium suites in 2015 for a total of \$2.7 million).

### Mechanical and Electrical:

This category primarily includes investments in heating, air conditioning and ventilation systems, fire safety systems, including sprinklers, and lighting systems. These investments are generally expected to result in energy cost savings and lower equipment maintenance costs over time.

In 2016, we completed 52 major M&E projects valued over \$50,000 each, totalling \$9.3 million (53 projects in 2015 for a total of \$9.6 million).

### Suite Improvements and Upgrades:

This category includes capital investments in resident suites. Over the past two years we have developed a program of strategic capital allocation to resident suite upgrades. These discretionary investments are made to improve the competitive position of our properties in the market and to allow for higher rental rate increases on suite turnover. In most cases, in addition to regular painting, resident suite upgrades include flooring upgrades and often full renovations of bathroom and kitchen facilities.

In 2016, 67 properties were subject to strategic suite upgrade programs (73 properties in 2015).

### Interior Improvements and Upgrades:

This category includes investments in common areas of our properties that are made primarily to improve marketability of our properties. This investment includes upgrades to property resident amenity areas, such as hallways, dining rooms, lounges, theatres, etc.

In 2016, 67 properties were subject to strategic common area upgrade programs (35 properties in 2015).

### FF&E:

This category primarily includes investments in resident area and model suite furnishings, equipment, including upgrades to commercial kitchens and investments in resident transportation programs. These investments are primarily made to improve competitiveness of our properties and to provide enhanced services to our residents.

### Communication and Information Services:

This category includes investments in telecom systems, including emergency call systems, computer hardware and software and the implementation costs of major new information systems.

## Contractual Obligations and Guarantees

### Contractual Obligations

The following table summarizes the major contractual obligations at Chartwell's Interest as at December 31, 2016, excluding discontinued operations:

| (\$000s)                               | Total     | 2017    | 2018    | 2019    | 2020    | 2021    | Thereafter |
|--|-----------|---------|---------|---------|---------|---------|------------|
| Mortgages payable                      | 1,722,667 | 140,197 | 206,622 | 275,136 | 260,291 | 124,530 | 715,891    |
| Accounts payable and other liabilities | 125,970   | 125,970 | -       | -       | -       | -       | -          |
| Distributions payable                  | 9,046     | 9,046   | -       | -       | -       | -       | -          |
| Credit Facilities                      | 172,000   | -       | 172,000 | -       | -       | -       | -          |
| Purchase obligations                   | 106,490   | 53,042  | 53,448  | -       | -       | -       | -          |
| Other operating leases                 | 8,135     | 1,416   | 1,416   | 1,360   | 1,265   | 1,268   | 1,410      |
| Land leases                            | 14,085    | 395     | 395     | 395     | 395     | 395     | 12,110     |
| Total contractual obligations          | 2,158,393 | 330,066 | 433,881 | 276,891 | 261,951 | 126,193 | 729,411    |

Purchase obligations relate to various construction contracts on our development projects.

Other operating leases relate to the agreements for office space in Mississauga, Montreal and Vancouver.

Land leases relate to three properties and expire between 2044 and 2061.

### Guarantees

We remain a guarantor of mortgages on six properties sold in 2014, 2015 and 2016 with the aggregate outstanding balance as of December 31, 2016 of \$25.3 million. The purchasers of these properties have indemnified us with respect to these guarantees.

As of December 31, 2016, together with our partners, we have jointly and severally guaranteed loans on certain co-owned properties to an aggregate maximum amount of \$73.6 million. As at December 31, 2016, outstanding balances on these loans were \$63.7 million.

### Other Contracts

Pursuant to our agreements with Batimo, upon achievement of certain conditions, Batimo may require us to acquire an 85% interest in their development properties which we manage and, in some cases, provided mezzanine loans, at 99% of fair market value ("FMV") as defined in the agreements (the "Batimo Option"). The Batimo Option is for a five-year period commencing on the opening of the related facility. Upon expiry of the Batimo Option, we have a two-year option to acquire an 85% interest in the property at FMV. As of the date of this MD&A, there are six projects with 1,487 suites that are subject to this arrangement, of which two are in lease-up, three are in construction and one is in pre-development.

## Cash Flow Analysis

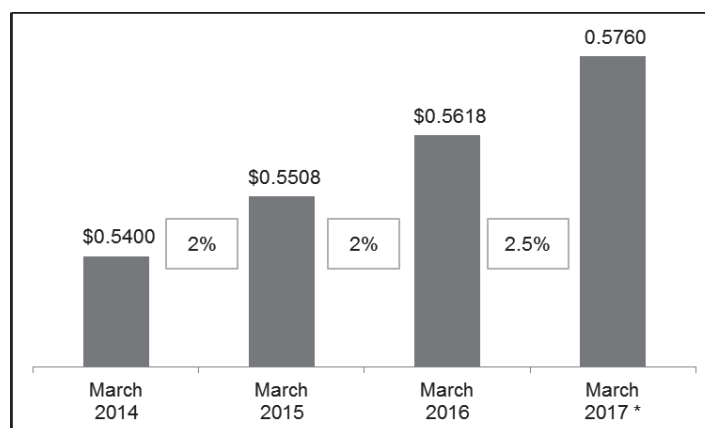
The following table summarizes the significant changes in our operating, financing and investing cash flows between 2016 and 2015 using our consolidated statements of cash flows:

| Cash Provided by (Used in): | Increase / (Decrease) (\$millions) | Explanation   |
|-----------------------------|------------------------------------|---|
| Operating activities        | 42.6                               | Change in cash flows from operating activities is primarily due to higher NOI, lower interest payments and changes in working capital balances.   |
| Financing activities        | 152.2                              | Change in cash flows from financing activities is primarily due to higher utilization of our Credit Facilities and lower mortgage repayments, partially offset by lower mortgage financing proceeds.  |
| Investing activities        | (159.4)                            | Change in cash flows from investing activities is primarily due to the proceeds of the sale of the U.S. Portfolio in 2015 and higher capital investments in our existing properties in 2016, partially offset by fewer acquisitions and net loan receivables. |

## Distributions

The declaration and payment of future distributions is at the discretion of the board of trustees of Chartwell (the "Trustees"). The Trustees rely upon forward-looking cash flow information including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects of the Trust, debt covenants and obligations, and any other factors considered relevant by them in setting the distribution rate.

The following chart summarizes increases in our annualized per unit distributions over the past three years:



\* Effective for the March 31, 2017 distribution payable on April 15, 2017.

Unitholders who are Canadian residents are eligible to participate in our Distribution Reinvestment Plan ("DRIP"), which allows unitholders to use their monthly cash distributions to steadily increase ownership without incurring any commission or other transaction costs. Participating investors registered in the DRIP receive additional bonus units in an amount equal to 3% of the distributions which they have elected to reinvest. In 2016, our average DRIP participation was 19.1% compared to 19.4% participation in 2015.



The following table summarizes distributions made in Q4 2016, 2016, 2015 and 2014:

| (\$000s)                                      | Q4 2016 | 2016     | 2015     | 2014     |
|---|---------|----------|----------|----------|
| Distributions declared on Trust Units         | 26,865  | 104,701  | 96,553   | 94,103   |
| Distributions on Class B Units                | 229     | 904      | 956      | 889      |
| Distributions reinvested under DRIP           | (5,100) | (19,725) | (18,574) | (17,408) |
| Distributions applied against EUPP receivable | (216)   | (874)    | (889)    | (1,009)  |
| Distributions paid or payable in cash         | 21,778  | 85,006   | 78,046   | 76,575   |

The following table summarizes distributions declared on Trust Units in Q4 2016, 2016, 2015 and 2014 in relation to net income/(loss) from continuing operations and cash flows from operating activities:

| (\$000s)  | Q4 2016  | 2016      | 2015     | 2014      |
|---|----------|-----------|----------|-----------|
| Cash flows from operating activities  | 58,530   | 158,373   | 115,821  | 123,375   |
| Net income/(loss) from continuing operations  | 12,826   | (710)     | 12,139   | (26,030)  |
| Excess of cash flows from operating activities over distributions declared on Trust Units | 31,665   | 53,672    | 19,268   | 29,272    |
| Excess/(deficit) of net income/(loss) over distributions declared on Trust Units          | (14,039) | (105,411) | (84,414) | (120,133) |

We distributed cash to our unitholders while recording a net loss from continuing operations in 2016 and 2014. We do not use net income/(loss) as determined in accordance with IFRS as the basis for establishing the level of distributions to unitholders, as net income/(loss) includes, among other items, non-cash depreciation and amortization and changes in fair values of certain liabilities. We do not consider non-cash depreciation and amortization and fluctuations in fair values of certain liabilities in establishing our distribution levels. We believe that, with the appropriate level of capital reinvestment in our properties, their income-generating potential does not generally diminish over time.

We believe our current distributions are sustainable.

## Summary of Select Financial Information

### *Selected Annual Financial Information*

The following table summarizes selected annual financial information for each of the past three years ended December 31:

| (\$000s, except per unit amounts)         | 2016      | 2015      | 2014      |
|---|-----------|-----------|-----------|
| Property revenues                         | 714,380   | 643,914   | 824,693   |
| Total revenues                            | 758,212   | 685,871   | 865,341   |
| Direct property operating expenses        | 495,227   | 463,535   | 592,498   |
| Net income/(loss) – continuing operations | (710)     | 12,139    | (8,279)   |
| Net income/(loss)                         | 4,796     | 362,233   | (8,279)   |
| Total assets                              | 2,796,707 | 2,599,389 | 2,705,249 |
| Total non-current financial liabilities   | 1,695,595 | 1,555,891 | 1,715,706 |
| Total liabilities                         | 1,971,724 | 1,869,869 | 2,271,651 |
| Distributions declared per unit           | 0.55998   | 0.5490    | 0.5400    |

Our annual results for the past three years have been primarily affected by the contribution of acquisitions and dispositions, particularly by the sale of the U.S. Portfolio in 2015 and the reinvestment of the net proceeds in debt reduction and in acquisitions of properties in Canada.

## Quarterly Financial Information

The following table summarizes our quarterly unaudited financial information:

| (\$000s, except per unit amounts)  | 2016      |           |           |           | 2015      |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | Q4        | Q3        | Q2        | Q1        | Q4        | Q3        | Q2        | Q1        |
| Revenues   | 194,003   | 190,646   | 188,668   | 184,895   | 184,050   | 173,088   | 165,545   | 163,188   |
| Direct property operating expenses   | (128,177) | (122,883) | (122,959) | (121,208) | (122,502) | (115,562) | (112,836) | (112,635) |
| Depreciation and amortization  | (38,534)  | (37,955)  | (35,021)  | (35,245)  | (34,396)  | (28,164)  | (23,621)  | (28,236)  |
| Share of net income/(loss) from joint ventures                                     | 1,829     | 1,759     | 931       | 172       | (1,445)   | 966       | 197       | 96        |
| G&A expenses   | (8,227)   | (8,264)   | (9,126)   | (8,221)   | (7,581)   | (7,003)   | (7,519)   | (8,668)   |
| Other income/(expense)   | 1,848     | (4,426)   | 4,082     | (3,489)   | (4,640)   | (7,379)   | 13,649    | 1,039     |
| Finance costs  | (16,582)  | (16,630)  | (17,440)  | (18,126)  | (18,068)  | (17,386)  | (18,510)  | (18,118)  |
| Changes in fair value of financial instruments and foreign exchange gains/(losses) | 6,693     | 178       | (5,546)   | (18,328)  | (6,451)   | (863)     | 12,840    | (7,817)   |
| Current income tax (expense)/benefit   | (27)      | -         | -         | -         | 1,456     | (2,796)   | -         | -         |
| Deferred income tax (expense)/benefit  | -         | -         | -         | -         | 8,216     | 789       | (789)     | -         |
| Net income/(loss) for the period – continuing operations                           | 12,826    | 2,425     | 3,589     | (19,550)  | (1,361)   | (4,310)   | 28,956    | (11,151)  |
| Net income/(loss) for the period   | 15,053    | 2,430     | 7,185     | (19,872)  | 562       | (4,768)   | 355,310   | 11,128    |
| FFO – continuing operations <sup>(1)</sup>   | 43,767    | 46,222    | 42,304    | 40,344    | 38,484    | 35,559    | 28,477    | 25,778    |
| Diluted FFO – continuing operations <sup>(1)</sup>                                 | 43,767    | 46,222    | 43,005    | 42,254    | 40,422    | 37,497    | 30,394    | 27,675    |
| FFO per unit diluted – continuing operations <sup>(1)</sup>                        | 0.23      | 0.24      | 0.22      | 0.22      | 0.21      | 0.20      | 0.16      | 0.15      |
| Total FFO <sup>(1)</sup>   | 43,767    | 46,222    | 42,304    | 40,344    | 38,484    | 35,559    | 37,679    | 34,596    |
| Total Diluted FFO <sup>(1)</sup>   | 43,767    | 46,222    | 43,005    | 42,254    | 40,422    | 37,497    | 39,596    | 36,493    |
| Total FFO per unit diluted <sup>(1)</sup>  | 0.23      | 0.24      | 0.22      | 0.22      | 0.21      | 0.20      | 0.21      | 0.19      |
| AFFO – continuing operations <sup>(1)</sup>  | 40,660    | 43,260    | 39,809    | 38,477    | 36,252    | 33,047    | 25,903    | 23,282    |
| Diluted AFFO – continuing operations <sup>(1)</sup>                                | 40,660    | 43,260    | 40,510    | 40,387    | 38,190    | 34,985    | 27,820    | 25,179    |
| AFFO per unit diluted – continuing operations <sup>(1)</sup>                       | 0.21      | 0.22      | 0.21      | 0.21      | 0.20      | 0.18      | 0.15      | 0.13      |
| Total AFFO <sup>(1)</sup>  | 40,660    | 43,260    | 39,809    | 38,477    | 36,252    | 33,047    | 34,152    | 31,337    |
| Total Diluted AFFO <sup>(1)</sup>  | 40,660    | 43,260    | 40,510    | 40,387    | 38,190    | 34,985    | 36,069    | 33,234    |
| Total AFFO per unit diluted <sup>(1)</sup>   | 0.21      | 0.22      | 0.21      | 0.21      | 0.20      | 0.18      | 0.19      | 0.17      |

(1) Non-GAAP; refer to the “Non-GAAP Measures” section of this MD&A.

Our results for the past eight quarters have primarily been affected by acquisitions and dispositions; refer to the “Significant Events” section of this MD&A and in our 2015 MD&A for details and changes in fair value of financial instruments and foreign exchange gains and losses.

## Discontinued Operations

On June 30, 2015, we completed the sale of the remainder of the U.S. Portfolio. The results of the U.S. Portfolio are presented as discontinued operations in this MD&A.

The following table presents the results of operations of the U.S. Operations:

| (U.S.\$000s, except as noted otherwise) | Q4 2016 | Q4 2015 | Change | 2016 | 2015   | Change   |
|---|---------|---------|--------|------|--------|----------|
| Revenue                                 | -       | -       | -      | -    | 92,395 | (92,395) |
| Operating expenses                      | -       | -       | -      | -    | 65,366 | (65,366) |
| NOI                                     | -       | -       | -      | -    | 27,029 | (27,029) |
| Foreign exchange in CDN                 | -       | -       | -      | -    | 6,262  | (6,262)  |
| Total NOI in CDN                        | -       | -       | -      | -    | 33,291 | (33,291) |

The operating results for the U.S. operating segment in Canadian dollars were also affected by fluctuations in foreign exchange rates. The average exchange rates for the periods noted below were as follows:

|  | Q4 2016 | Q4 2015 | Change | 2016 | 2015 | Change |
|--|---------|---------|--------|------|------|--------|
| Weighted average exchange rate for U.S.\$1.00 to CDN | 1.33    | 1.34    | (0.01) | 1.33 | 1.28 | 0.05   |

### Other Items Related to Discontinued Operations

| (\$000s)  | Q4 2016 | Q4 2015 | Change  | 2016  | 2015     | Change    |
|---|---------|---------|---------|-------|----------|-----------|
| Finance costs   | -       | -       | -       | -     | (16,939) | 16,939    |
| Other income/(expense)  | 1,583   | 202     | 1,381   | 1,721 | 430,870  | (429,119) |
| Depreciation of PP&E  | -       | -       | -       | -     | (13,870) | 13,870    |
| Amortization of intangible assets   | -       | -       | -       | -     | (255)    | 255       |
| Changes in fair value of financial instruments and foreign exchange (loss)/gain and adjustment on mortgages | -       | -       | -       | -     | (26,827) | 26,827    |
| Current income tax (expense)/benefit  | 644     | 1,721   | (1,077) | 3,785 | (56,176) | 59,961    |

In 2016, we recorded a current income tax recovery of \$3.8 million which is primarily related to changes in our estimate of the U.S. taxes payable on the disposition and the settlement of certain liabilities of the U.S. Portfolio.

In Q4 2016, we agreed to settle certain liabilities for which estimates were made on closing of the sale of the U.S. Portfolio. As the actual settlement amounts were lower than previously estimated, we recorded other income of \$1.6 million.

The following table provides the calculation of FFO from discontinued operations:

| (\$000s)   | Q4 2016 | Q4 2015 | Change | 2016    | 2015      | Change    |
|--|---------|---------|--------|---------|-----------|-----------|
| Net income/(loss) for the period   | 2,227   | 1,923   | 304    | 5,506   | 350,094   | (344,588) |
| <i>Add (Subtract):</i>   |         |         |        |         |           |           |
| Depreciation of PP&E <sup>(1)</sup>  | -       | -       | -      | -       | 13,870    | (13,870)  |
| Amortization of limited life intangible assets <sup>(1)</sup>                      | -       | -       | -      | -       | 255       | (255)     |
| (Gain)/loss on sale of assets <sup>(1)</sup>                                       | (1,583) | (1,183) | (400)  | (1,721) | (446,504) | 444,783   |
| Transaction costs arising on business acquisitions and dispositions <sup>(1)</sup> | -       | -       | -      | -       | 13,285    | (13,285)  |
| Tax on gains/losses on disposal of properties                                      | (644)   | (740)   | 96     | (3,785) | 56,989    | (60,744)  |
| Deferred income tax  | -       | -       | -      | -       | -         | -         |
| Adjustment for property tax accounted for under IFRIC 21                           | -       | -       | -      | -       | 3,198     | (3,198)   |
| Changes in fair value of financial instruments and foreign exchange gains/losses   | -       | -       | -      | -       | 26,827    | (26,827)  |
| FFO <sup>(1)(2)</sup>  | -       | -       | -      | -       | 18,014    | (18,014)  |

(1) Non-GAAP; reported at Chartwell's Interest.

(2) Refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

The following table provides the calculation of AFFO from discontinued operations:

| (\$000s)  | Q4 2016 | Q4 2015 | Change | 2016 | 2015    | Change   |
|---|---------|---------|--------|------|---------|----------|
| FFO <sup>(1)</sup>  | -       | -       | -      | -    | 18,014  | (18,014) |
| <i>Add (Subtract):</i>  |         |         |        |      |         |          |
| Amortization of financing costs and debt mark-to-market adjustments <sup>(2)(3)</sup> | -       | -       | -      | -    | 772     | (772)    |
| Financing cost reserve <sup>(4)</sup>   | -       | -       | -      | -    | (206)   | 206      |
| AFFO before capital maintenance reserve   | -       | -       | -      | -    | 18,580  | (18,580) |
| Capital maintenance reserve - 2% of property revenue <sup>(5)</sup>                   | -       | -       | -      | -    | (2,282) | 2,282    |
| AFFO <sup>(6)</sup>   | -       | -       | -      | -    | 16,298  | (16,298) |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Non-GAAP; reported at Chartwell's Interest.

(3) Excludes amortization of financing costs incurred in respect of renewal of our Credit Facilities.

(4) Refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of the financing cost reserve.

(5) Refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of the capital maintenance reserve. Refer to the "Capital Investments" section of this MD&A for details of actual capital expenditures.

(6) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

## Non-GAAP Measures

We use a number of Non-GAAP Measures for monitoring and analyzing our financial results as outlined in this section. These measures do not have any standardized meaning prescribed by IFRS and therefore, are unlikely to be comparable to similar measures presented by other income trusts or other companies.

### *Funds from Operations*

FFO should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. FFO as presented may not be comparable to similar measures presented by other real estate investment trusts. However, we present FFO substantially consistent with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of the following:

- Transaction costs related to the disposition of properties are added back in our FFO calculation.
- Realized foreign exchange gains resulting from conversion of the net proceeds of the sale of the U.S. Portfolio are deducted in our FFO calculation.

According to REALpac guidance, FFO is defined as follows: Profit or loss per IFRS Statement of Comprehensive Income adjusted for:

- Unrealized changes in the fair value of investment properties.
- Depreciation of depreciable real estate assets including depreciation for components relating to capitalized leasing costs, capitalized tenant allowances treated as capital improvements and lease-related items ascribed in a business combination.
- Amortization of tenant allowances and landlord's work spent for the fit-out of tenant improvements and amortized as a reduction to revenue in accordance with SIC-15.
- Amortization of tenant/customer relationship intangibles or other intangibles arising from a business combination.
- Gains / losses from sales of investment properties and owner-occupied properties, including the gain or loss included within discontinued operations (if applicable).
- Tax on profits or losses on disposals of properties.
- Deferred taxes.
- Impairment losses or reversals recognized on land and depreciable real estate properties, excluding those relating to properties used exclusively for administrative purposes.
- Revaluation gains or losses recognized in profit or loss on owner-occupied properties, excluding those relating to properties used exclusively for administrative purposes.
- Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination.
- Foreign exchange gains or losses on monetary items not forming part of a net investment in a foreign operation.
- Property taxes accrued and expensed prior to the associated period of lease term revenue, wherein certain jurisdictions require the owner of a property at the time of tax assessment to irrevocably be solely liable for property taxes regardless of subsequent changes in ownership.
- Gain or loss on the sale of an investment in a foreign operation.
- Changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting.
- Bargain purchase or goodwill impairment.
- Effects of redeemable units classified as financial liabilities.
- Results of discontinued operations.
- Adjustments for equity accounted entities.
- Non-controlling interests in respect of the above.



#### T. Incremental leasing costs.

In our opinion, the use of FFO, combined with the required primary IFRS presentations, is fundamentally beneficial to the users of the financial information, improving their understanding of our operating results. We generally consider FFO to be a meaningful measure for reviewing our operating and financial performance because, by excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), transaction costs arising on business acquisitions and dispositions, impairment of PP&E, distributions on Class B Units recorded as interest expense, convertible debenture issue costs, changes in fair value of financial instruments, unrealized foreign exchange gains/losses, and adjustments for equity-accounted entities, FFO can assist the user of the financial information in comparing the operating performance of our real estate portfolio between financial reporting periods.

FFO from continuing operations excludes the results of the U.S. Portfolio classified as discontinued operations.

To the extent that our convertible debentures were dilutive to FFO per unit, convertible debenture interest was added back to calculate a diluted FFO for the sole purpose of calculating the FFO per unit diluted.

The following table provides a reconciliation of net income/(loss) to FFO:

| (\$000s, except per unit amounts)  | Q4 2016       | Q4 2015       | Change       | 2016           | 2015           | Change        |
|--|---------------|---------------|--------------|----------------|----------------|---------------|
| Net income/(loss) from continuing operations   | 12,826        | (1,361)       | 14,187       | (710)          | 12,139         | (12,849)      |
| <i>Add (Subtract):</i>   |               |               |              |                |                |               |
| Depreciation of PP&E <sup>(1)</sup>  | 40,266        | 35,682        | 4,584        | 153,446        | 117,583        | 35,863        |
| Amortization of limited life intangible assets <sup>(1)</sup>  | 289           | 155           | 134          | 1,185          | 678            | 507           |
| Depreciation of leasehold improvements and amortization of software costs included in depreciation and amortization above <sup>(1)</sup> | (356)         | (218)         | (138)        | (1,431)        | (669)          | (762)         |
| Loss/(gain) on sale of assets <sup>(1)</sup>   | 78            | (266)         | 344          | (1,961)        | (4,974)        | 3,013         |
| Gain on remeasure to fair value of existing interest   | -             | -             | -            | (5,187)        | (10,452)       | 5,265         |
| Transaction costs arising on business acquisitions and dispositions <sup>(1)</sup>   | (95)          | 4,468         | (4,563)      | 5,400          | 13,834         | (8,434)       |
| Tax on gains or losses on disposal of properties   | -             | (1,458)       | 1,458        | -              | 1,338          | (1,338)       |
| Deferred income tax  | -             | (8,216)       | 8,216        | -              | (8,216)        | 8,216         |
| Distributions on Class B Units recorded as interest expense  | 229           | 281           | (52)         | 904            | 956            | (52)          |
| Changes in fair value of financial instruments and foreign exchange gain/loss  | (8,360)       | 6,417         | (14,777)     | 14,601         | 2,331          | 12,270        |
| Impairment provision/(reversal)  | (1,110)       | 3,000         | (4,110)      | 6,390          | 3,755          | 2,635         |
| FFO - continuing operations <sup>(1)(2)</sup>  | 43,767        | 38,484        | 5,283        | 172,637        | 128,303        | 44,334        |
| FFO - discontinued operations  | -             | -             | -            | -              | 18,014         | (18,014)      |
| <b>Total FFO <sup>(1)(2)</sup></b>   | <b>43,767</b> | <b>38,484</b> | <b>5,283</b> | <b>172,637</b> | <b>146,317</b> | <b>26,320</b> |
| FFO - continuing operations <sup>(1)(2)</sup>  | 43,767        | 38,484        | 5,283        | 172,637        | 128,303        | 44,334        |
| Interest expense on 5.7% convertible debentures  | -             | 1,938         | (1,938)      | 2,611          | 7,690          | (5,079)       |
| Diluted FFO - continuing operations <sup>(3)</sup>   | 43,767        | 40,422        | 3,345        | 175,248        | 135,993        | 39,255        |
| FFO - discontinued operations  | -             | -             | -            | -              | 18,014         | (18,014)      |
| <b>Total diluted FFO <sup>(3)</sup></b>  | <b>43,767</b> | <b>40,422</b> | <b>3,345</b> | <b>175,248</b> | <b>154,007</b> | <b>21,241</b> |
| FFO per unit – continuing operations <sup>(4)</sup>  |               |               |              |                |                |               |
| Basic  | 0.23          | 0.21          | 0.02         | 0.91           | 0.72           | 0.19          |
| Diluted  | 0.23          | 0.21          | 0.02         | 0.91           | 0.71           | 0.20          |
| Total FFO per unit <sup>(4)</sup>  |               |               |              |                |                |               |
| Basic  | 0.23          | 0.21          | 0.02         | 0.91           | 0.82           | 0.09          |
| Diluted  | 0.23          | 0.21          | 0.02         | 0.91           | 0.81           | 0.10          |

(1) Non-GAAP; reported at Chartwell's Interest.

(2) Refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(3) Non-GAAP; diluted FFO is solely utilized for the purposes of calculating FFO per unit diluted.

(4) Non-GAAP; refer to the "Non-GAAP Measures – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts; FFO per unit diluted includes dilutive impact of 5.7% convertible debentures.

## ***Adjusted Funds from Operations***

AFFO should not be construed as an alternative to net earnings or cash flow from operating activities as determined by IFRS. AFFO as presented may not be comparable to similar measures presented by other issuers. We believe AFFO is useful in the assessment of our operating performance and that this measure is also useful for valuation purposes and is a relevant and meaningful measure of our ability to earn and distribute cash to unitholders. We calculate AFFO by adding or subtracting certain items measured at Chartwell's Interest to or from FFO as follows:

***Principal portion of capital funding receivable:*** This item represents a portion of the long-term cash flow stream provided by the Ontario Ministry of Health and Long Term Care ("MOHLTC") to communities which meet certain design criteria. We include this item in AFFO calculations.

***Income guarantees:*** This item represents amounts due from vendors of acquired communities under the applicable purchase and sale agreement. It is generally applicable to communities in lease-up.

***Amortization of financing costs and fair value adjustments on mortgages payable:*** Adjustments made in AFFO calculation to adjust for non-cash interest expense items and to account for interest expense based on the contractual terms of the underlying debt.

***Financing cost reserve:*** In order to account for financing costs routinely incurred on re-financing of existing debt, we included this reserve in the calculation of AFFO. We calculate this reserve based on our estimate of normalized costs of re-financing (60 basis points) applied to the debt balances outstanding at the end of the reporting period taking into account weighted average term to maturity of our mortgage portfolio.

***Capital maintenance reserve:*** Capital maintenance reserve is estimated at 2% of property revenue.

***Discontinued operations:*** This item represents the impact of the items above specifically related to discontinued operations.

AFFO from continuing operations excludes the results of the U.S. Portfolio classified as discontinued operations.

To the extent that our convertible debentures were dilutive to AFFO per unit, convertible debenture interest was added back to calculate a diluted AFFO for the sole purpose of calculating the AFFO per unit diluted.

The following table provides the calculation of AFFO:

| (\$000s, except per unit amounts)   | Q4 2016 | Q4 2015 | Change  | 2016     | 2015     | Change   |
|---|---------|---------|---------|----------|----------|----------|
| FFO - continuing operations <sup>(1)</sup>  | 43,767  | 38,484  | 5,283   | 172,637  | 128,303  | 44,334   |
| <i>Add (Subtract):</i>  |         |         |         |          |          |          |
| Principal portion of capital subsidy receivable from Health Authorities                     | 1,368   | 1,280   | 88      | 6,289    | 5,028    | 1,261    |
| Amounts receivable under income guarantees  | 514     | 969     | (455)   | 2,868    | 1,935    | 933      |
| Amortization of financing costs and debt mark-to-market adjustments <sup>(2)(3)</sup>       | (377)   | (142)   | (235)   | (1,564)  | (540)    | (1,024)  |
| Financing cost reserve <sup>(4)</sup>   | (345)   | (306)   | (39)    | (1,329)  | (1,241)  | (88)     |
| AFFO before capital maintenance reserve   | 44,927  | 40,285  | 4,642   | 178,901  | 133,485  | 45,416   |
| Capital maintenance reserve - 2% of property revenue - continuing operations <sup>(5)</sup> | (4,267) | (4,033) | (234)   | (16,695) | (15,002) | (1,693)  |
| AFFO - continuing operations <sup>(6)</sup>   | 40,660  | 36,252  | 4,408   | 162,206  | 118,483  | 43,723   |
| AFFO - discontinued operations  | -       | -       | -       | -        | 16,298   | (16,298) |
| Total AFFO <sup>(6)</sup>   | 40,660  | 36,252  | 4,408   | 162,206  | 134,781  | 27,425   |
| AFFO - continuing operations <sup>(6)</sup>   | 40,660  | 36,252  | 4,408   | 162,206  | 118,483  | 43,723   |
| Interest expense on 5.7% convertible debentures   | -       | 1,938   | (1,938) | 2,611    | 7,690    | (5,079)  |
| Diluted AFFO - continuing operations <sup>(7)</sup>   | 40,660  | 38,190  | 2,470   | 164,817  | 126,173  | 38,644   |
| AFFO - discontinued operations  | -       | -       | -       | -        | 16,298   | (16,298) |
| Total diluted AFFO  | 40,660  | 38,190  | 2,470   | 164,817  | 142,471  | 22,346   |
| AFFO per unit - continuing operations <sup>(8)</sup>  |         |         |         |          |          |          |
| Basic   | 0.21    | 0.20    | 0.01    | 0.86     | 0.66     | 0.20     |
| Diluted   | 0.21    | 0.20    | 0.01    | 0.85     | 0.66     | 0.19     |
| Total AFFO per unit <sup>(8)</sup>  |         |         |         |          |          |          |
| Basic   | 0.21    | 0.20    | 0.01    | 0.86     | 0.76     | 0.10     |
| Diluted   | 0.21    | 0.20    | 0.01    | 0.85     | 0.75     | 0.10     |

(1) Non-GAAP; refer to the "Non-GAAP Measures – Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in FFO calculations.

(2) Non-GAAP; reported at Chartwell's Interest.

(3) Excludes amortization of financing costs incurred in respect of renewal of our Credit Facilities.

(4) Refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of the financing cost reserve.

(5) Refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of the capital maintenance reserve. Refer to the "Capital Investments" section of this MD&A for details of actual capital expenditures.

(6) Non-GAAP; refer to the "Non-GAAP Measures – Adjusted Funds from Operations" section of this MD&A for a discussion of the nature of various adjustments made in the AFFO calculations.

(7) Non-GAAP; diluted AFFO is solely utilized for the purposes of calculating AFFO per unit diluted.

(8) Non-GAAP; refer to the "Non-GAAP Measures – Per Unit Amounts" section of this MD&A for a discussion of the calculation of the per unit amounts; AFFO per unit diluted includes the dilutive impact of 5.7% convertible debentures.

## Per Unit Amounts

In our calculations of FFO per unit and AFFO per unit, we include the Class B Units as the Class B Units are exchangeable into Trust Units at any time at the option of the unitholder. In addition, we include units issued under DTU, EUPP and subscription receipts. In our calculation of FFO per unit diluted and AFFO per unit diluted, we consider the dilutive impact of the conversion of our convertible debentures.

## Weighted Average Number of Units

The following table provides details of the weighted average number of units outstanding:

| (000s)  | Q4 2016 | Q4 2015 | Change   | 2016    | 2015    | Change  |
|---|---------|---------|----------|---------|---------|---------|
| Weighted average number of units <sup>(1)</sup>               | 193,971 | 179,687 | 14,284   | 189,222 | 178,515 | 10,707  |
| Dilutive impact of 5.7% convertible debentures <sup>(2)</sup> | -       | 12,261  | (12,261) | 4,211   | 12,264  | (8,053) |
| Weighted average number of units, diluted                     | 193,971 | 191,948 | 2,023    | 193,433 | 190,779 | 2,654   |

(1) Includes Class B Units, units issued under EUPP and DTUs.

(2) The 5.7% convertible debentures were converted into Trust Units in Q2 2016.

## Property Revenue

Property Revenue should not be construed as an alternative to other IFRS metrics. Property Revenue is measured at Chartwell's Interest and includes revenue derived from rents and services provided to our residents, commercial tenants and from contracts with various health authorities, government agencies and other third parties that are specific to operations of our properties. We believe that the use of Property Revenue combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms.

## Direct Property Operating Expenses

Direct Property Operating Expenses should not be construed as an alternative to other IFRS metrics. Direct Property Operating Expenses is measured at Chartwell's Interest and includes expenses directly incurred in operation of our properties as well as an allocation of corporate overhead costs attributable to such property operations.

## Net Operating Income

NOI should not be construed as an alternative to other IFRS metrics. We define NOI as the difference between Property Revenue and Direct Property Operating Expenses, measured at Chartwell's Interest. We believe that the use of NOI combined with primary IFRS measures is beneficial to the users of the financial information in understanding operating performance of our operating segments and platforms.

## Same Property Performance

We evaluate our financial performance by analyzing our same property portfolio. Generally, our same property portfolio excludes properties that have not been owned or leased continuously since the beginning of the previous fiscal year or that are expected to be sold in the current fiscal year. In addition, to improve comparability, properties that are undergoing a significant redevelopment or where we have added or expect to add significant capacity in the current year are excluded from the same property portfolio.

The following table summarizes the same property portfolio as at December 31, 2016:

|                               | Properties | Suites/Beds | Suites/Beds at Chartwell's Share of Ownership |
|-------------------------------|------------|-------------|---|
| Retirement Operations         | 130        | 18,530      | 14,740  |
| Long Term Care Operations     | 24         | 3,133       | 3,133   |
| Total same property portfolio | 154        | 21,663      | 17,873  |

## Same Property Revenue, Same Property Direct Operating Expenses, Same Property NOI

Key metrics used to evaluate same property performance are same property revenue, direct property operating expenses and NOI. These metrics are measured at Chartwell's Interest.

Our same property metrics, as defined above, should not be construed as alternatives to other IFRS metrics. We believe that the use of these metrics combined with primary IFRS measures is beneficial to users of the financial information in understanding the operating performance of our operating segments and platforms.

Refer to the "Consolidated Results of Operations – Summary of Net Operating Income" section of this MD&A for a reconciliation of these items.

## ***G&A Expenses as a Percentage of Revenue***

G&A as a percentage of revenue should not be construed as an alternative to other IFRS metrics. We believe that G&A as a percentage of revenue is useful as a benchmark to evaluate the required resource level to support our operating business. This percentage is calculated as total G&A expenses divided by the sum of Property Revenue, management and other fee revenue and mezzanine loan and other interest income at Chartwell's Interest.

The following table presents a reconciliation of revenue used in the calculation of G&A expenses as a percentage of revenue to our Financial Statements:

| (\$000s)                              | Q4 2016 | Q4 2015 | 2016    | 2015    |
|---------------------------------------|---------|---------|---------|---------|
| Revenue                               | 194,003 | 184,050 | 758,212 | 685,871 |
| Equity-accounted investments          | 22,170  | 19,974  | 86,550  | 73,213  |
| Chartwell's Interest                  | 216,173 | 204,024 | 844,762 | 759,084 |
| Interest income                       | 798     | 889     | 3,175   | 3,486   |
| Equity-accounted investments          | 25      | 22      | 91      | 98      |
| Chartwell's Interest                  | 823     | 911     | 3,266   | 3,584   |
| Total revenue at Chartwell's Interest | 216,996 | 204,935 | 848,028 | 762,668 |

## ***Interest Coverage Ratio***

The interest coverage guideline provides an indication of an entity's ability to service or pay the interest charges relating to the underlying debt and have generally been used by debt rating agencies to test an entity's ability to service its debt. Generally, the higher the ratio, the lower the risk of default on debt. The Interest Coverage Ratio is measured at Chartwell's Interest.

## ***Indebtedness Ratio***

Our Declaration of Trust limits the amount of overall indebtedness that we can incur to 65% of GBV. This metric is commonly used by the investment community together with the interest coverage ratio and net debt to adjusted EBITDA to evaluate our leverage and the strength of our equity position. GBV, for the purpose of this ratio, excludes deferred tax assets. Under the Declaration of Trust, 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 liability, any capital lease obligation and any guaranteed obligations of third parties to the extent included in our consolidated balance sheet. The Indebtedness Ratio is measured at Chartwell's Interest.

## ***Adjusted EBITDA***

Adjusted EBITDA should not be construed as an alternative to net earnings as determined by IFRS. EBITDA is a generally accepted proxy for operating cash flow and represents earnings before interest expense, taxes, depreciation and amortization. Adjusted EBITDA is useful in evaluating performance of continuing operations, excluding the costs of consuming capital assets and the cost of financing which does not affect the value of an entity's assets. Our calculation of Adjusted EBITDA excludes transaction costs arising on business acquisitions and dispositions, which are expensed as incurred, gains/losses on disposition of properties, changes in fair value of financial instruments, foreign exchange gains/losses, the portion of property tax expense that is not recognized pro-rata under IFRIC 21 and non-recurring items such as asset impairment provisions or reversal of such provisions, or debenture issuance costs and includes the principal portion of the capital funding receivable from MOHLTC since this long-term cash flow stream forms part of the business value considered by lenders in financing LTC properties; it is measured at Chartwell's Interest.

## ***Net Debt to Adjusted EBITDA Ratio***

Net Debt to Adjusted EBITDA should not be construed as an alternative to other IFRS metrics. The Net Debt to Adjusted EBITDA Ratio provides an approximation of the number of years required for current cash flows to cover or repay all indebtedness and is commonly used by investors to evaluate the level of an entity's debt in relation to its operating cash flows. Net debt and Adjusted EBITDA are not susceptible to short-term changes in market values and are not prone to subjective assessments surrounding asset valuations. Net Debt to Adjusted EBITDA is measured at Chartwell's Interest.

## ***Distributions Declared as a Percentage of Total AFFO***

Distributions declared as a percentage of total AFFO is calculated using distributions declared on our Trust Units, Class B Units and DTUs.

## ***Estimated Development Costs***

Estimated development costs should not be construed as an alternative to other IFRS metrics. Estimated development costs are measured at Chartwell's Interest and normally include land costs, hard and soft development costs, costs of furniture, fixtures and equipment, imputed cost of capital and lease-up losses incurred during pre-opening and initial property operations.

## ***Expected Unlevered Yield***

Expected unlevered yield should not be construed as an alternative to other IFRS metrics. Expected unlevered yield is defined as the ratio of the expected NOI of a development property in the first year it achieves a stabilized occupancy level, divided by total estimated development costs.

## ***Chartwell's Interest***

We account for certain investments in joint arrangements using the equity method of accounting. All references to "Chartwell's Interest" refer to a non-GAAP financial measure representing our proportionate share of the financial position and results of operations of our entire portfolio excluding discontinued operations, taking into account the difference in accounting for joint ventures using proportionate consolidation versus equity accounting. Refer to the "Joint Arrangements" section of this MD&A for a discussion of the usefulness of this measure and to the following tables for a reconciliation of Chartwell's results of operations and statement of financial position.



The following table provides a reconciliation of the Q4 2016 Statement of Comprehensive Income (Loss) from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s, unaudited)  | Q4 2016<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | Q4 2016<br>Chartwell's<br>Interests <sup>(2)</sup> |
|--|-----------------------|---|--|
| <b>Revenue</b>   |                       |   |  |
| Resident   | 182,652               | 30,698  | 213,350  |
| Management and other fees  | 2,541                 | -   | 2,541  |
| Lease revenue from joint ventures  | 8,528                 | (8,528)   | -  |
| Interest on loans receivable   | 282                   | -   | 282  |
|  | 194,003               | 22,170  | 216,173  |
| <b>Expenses</b>  |                       |   |  |
| Direct property operating  | 128,177               | 19,455  | 147,632  |
| G&A  | 8,227                 | -   | 8,227  |
|  | 136,404               | 19,455  | 155,859  |
| Income before the undernoted   | 57,599                | 2,715   | 60,314   |
| Finance costs  | (16,582)              | (557)   | (17,139)   |
| Other income/(expense)   | 1,848                 | 25  | 1,873  |
| Depreciation of PP&E   | (38,249)              | (2,017)   | (40,266)   |
| Amortization of intangible assets  | (285)                 | (4)   | (289)  |
| Changes in fair value of financial instruments and foreign<br>exchange gain/(loss) | 6,693                 | 1,667   | 8,360  |
| Share of net income from joint ventures  | 1,829                 | (1,829)   | -  |
|  | 12,853                | -   | 12,853   |
| Income tax (expense)/benefit:<br>Current   | (27)                  | -   | (27)   |
| Net income from continuing operations  | 12,826                | -   | 12,826   |
| Net income from discontinued operations  | 2,227                 | -   | 2,227  |
| Total comprehensive income   | 15,053                | -   | 15,053   |

(1) Represents Chartwell's proportionate share of the revenues and expenses of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

The following table provides a reconciliation of the Q4 2015 Statement of Comprehensive Income (Loss) from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s, unaudited)  | Q4 2015<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | Q4 2015<br>Chartwell's<br>Interests <sup>(2)</sup> |
|--|-----------------------|---|--|
| <b>Revenue</b>   |                       |   |  |
| Resident   | 173,413               | 28,273  | 201,686  |
| Management and other fees  | 1,977                 | -   | 1,977  |
| Lease revenue from joint ventures  | 8,299                 | (8,299)   | -  |
| Interest on loans receivable   | 361                   | -   | 361  |
|  | 184,050               | 19,974  | 204,024  |
| <b>Expenses</b>  |                       |   |  |
| Direct property operating  | 122,502               | 17,789  | 140,291  |
| G&A  | 7,581                 | -   | 7,581  |
|  | 130,083               | 17,789  | 147,872  |
| Income before the undernoted   | 53,967                | 2,185   | 56,152   |
| Finance costs  | (18,068)              | (474)   | (18,542)   |
| Other income/(expense)   | (4,640)               | (1,749)   | (6,389)  |
| Depreciation of PP&E   | (34,245)              | (1,437)   | (35,682)   |
| Amortization of intangible assets  | (151)                 | (4)   | (155)  |
| Changes in fair value of financial instruments and foreign<br>exchange gain/(loss) | (6,451)               | 34  | (6,417)  |
| Share of net loss from joint ventures  | (1,445)               | 1,445   | -  |
| Loss before income taxes   | (11,033)              | -   | (11,033)   |
| Income tax (expense)/benefit:  |                       |   |  |
| Current  | 1,456                 | -   | 1,456  |
| Deferred   | 8,216                 | -   | 8,216  |
|  | 9,672                 | -   | 9,672  |
| Net loss from continuing operations  | (1,361)               | -   | (1,361)  |
| Net income from discontinued operations  | 1,923                 | -   | 1,923  |
| Total comprehensive income   | 562                   | -   | 562  |

(1) Represents Chartwell's proportionate share of the revenues and expenses of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

The following table provides a reconciliation of the 2016 Statement of Comprehensive Income (Loss) from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s, unaudited)  | 2016<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | 2016<br>Chartwell's<br>Interests <sup>(2)</sup> |
|--|--------------------|---|---|
| <b>Revenue</b>   |                    |   |   |
| Resident   | 714,380            | 120,353   | 834,733   |
| Management and other fees  | 8,777              | -   | 8,777   |
| Lease revenue from joint ventures  | 33,803             | (33,803)  | -   |
| Interest on loans receivable   | 1,252              | -   | 1,252   |
|  | 758,212            | 86,550  | 844,762   |
| <b>Expenses</b>  |                    |   |   |
| Direct property operating  | 495,227            | 74,169  | 569,396   |
| G&A  | 33,838             | -   | 33,838  |
|  | 529,065            | 74,169  | 603,234   |
| Income before the undernoted   | 229,147            | 12,381  | 241,528   |
| Finance costs  | (68,778)           | (2,429)   | (71,207)  |
| Other income/(expense)   | (1,985)            | 213   | (1,772)   |
| Depreciation of PP&E   | (145,586)          | (7,860)   | (153,446)                                       |
| Amortization of intangible assets  | (1,169)            | (16)  | (1,185)   |
| Changes in fair value of financial instruments and foreign<br>exchange gain/(loss) | (17,003)           | 2,402   | (14,601)  |
| Share of net income from joint ventures  | 4,691              | (4,691)   | -   |
| Loss before income taxes   | (683)              | -   | (683)   |
| Income tax (expense)/benefit:  |                    |   |   |
| Current  | (27)               | -   | (27)  |
| Net loss from continuing operations  | (710)              | -   | (710)   |
| Net income from discontinued operations  | 5,506              | -   | 5,506   |
| Total comprehensive income   | 4,796              | -   | 4,796   |

(1) Represents Chartwell's proportionate share of the revenues and expenses of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

The following table provides a reconciliation of the 2015 Statement of Comprehensive Income (Loss) from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s, unaudited)   | 2015<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | 2015<br>Chartwell's<br>Interests <sup>(2)</sup> |
|---|--------------------|---|---|
| <b>Revenue</b>  |                    |   |   |
| Resident  | 643,914            | 106,213   | 750,127   |
| Management and other fees   | 7,815              | -   | 7,815   |
| Lease revenue from joint ventures   | 33,000             | (33,000)  | -   |
| Interest on loans receivable  | 1,142              | -   | 1,142   |
|   | 685,871            | 73,213  | 759,084   |
| <b>Expenses</b>   |                    |   |   |
| Direct property operating   | 463,535            | 66,479  | 530,014   |
| G&A   | 30,771             | -   | 30,771  |
|   | 494,306            | 66,479  | 560,785   |
| Income before the undernoted  | 191,565            | 6,734   | 198,299   |
| Finance costs   | (72,077)           | (1,388)   | (73,465)  |
| Other income/(expense)  | 2,669              | (1,648)   | 1,021   |
| Depreciation of PP&E  | (113,756)          | (3,827)   | (117,583)                                       |
| Amortization of intangible assets   | (661)              | (17)  | (678)   |
| Changes in fair value of financial instruments and foreign<br>exchange gain/(loss)                          | (2,291)            | (40)  | (2,331)   |
| Share of net loss from joint ventures   | (186)              | 186   | -   |
| Income before income taxes  | 5,263              | -   | 5,263   |
| Income tax (expense)/benefit:   |                    |   |   |
| Current   | (1,340)            | -   | (1,340)   |
| Deferred  | 8,216              | -   | 8,216   |
|   | 6,876              | -   | 6,876   |
| Net income from continuing operations   | 12,139             | -   | 12,139  |
| Net income from discontinued operations   | 350,094            | -   | 350,094   |
| Other comprehensive income/(loss):  |                    |   |   |
| Unrealized foreign currency gain on translation of<br>foreign operations                                    | 5,945              | -   | 5,945   |
| Foreign currency translation reclassified to net<br>income/(loss) on disposition of discontinued operations | (10,599)           | -   | (10,599)  |
| Total comprehensive income  | 357,579            | -   | 357,579   |

(1) Represents Chartwell's proportionate share of the revenues and expenses of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

The following table provides a reconciliation of the December 31, 2016 Balance Sheet from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s)  | December 31, 2016<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | December 31, 2016<br>Chartwell's<br>Interests <sup>(2)</sup> |
|---|---------------------------------|---|--|
| <b>Assets</b>                                   |                                 |   |  |
| Current assets:                                 |                                 |   |  |
| Cash and cash equivalents                       | 30,050                          | 8,238   | 38,288   |
| Trade and other receivables                     | 18,339                          | 179   | 18,518   |
| Capital funding receivable                      | 5,663                           | -   | 5,663  |
| Other assets                                    | 14,900                          | 3,880   | 18,780   |
| Total current assets                            | 68,952                          | 12,297  | 81,249   |
| Non-current assets:                             |                                 |   |  |
| Other assets                                    | 3,449                           | -   | 3,449  |
| Loans receivable                                | 10,528                          | -   | 10,528   |
| Capital funding receivable                      | 54,510                          | -   | 54,510   |
| Investment in joint ventures                    | 30,822                          | (30,822)  | -  |
| Intangible assets                               | 57,598                          | 28  | 57,626   |
| PP&E  | 2,570,848                       | 100,399   | 2,671,247  |
| Total non-current assets                        | 2,727,755                       | 69,605  | 2,797,360  |
| Total assets                                    | 2,796,707                       | 81,902  | 2,878,609  |
| <b>Liabilities and Unitholders' Equity</b>      |                                 |   |  |
| Current liabilities:                            |                                 |   |  |
| Accounts payable and other liabilities          | 121,870                         | 4,100   | 125,970  |
| Distributions payable                           | 9,046                           | -   | 9,046  |
| Mortgages payable                               | 143,695                         | 320   | 144,015  |
| Total current liabilities                       | 274,611                         | 4,420   | 279,031  |
| Non-current liabilities:                        |                                 |   |  |
| Mortgages payable                               | 1,498,077                       | 77,482  | 1,575,559  |
| Credit Facilities                               | 172,000                         | -   | 172,000  |
| Class B Units                                   | 23,871                          | -   | 23,871   |
| Deferred tax liabilities                        | 1,518                           | -   | 1,518  |
| Deferred consideration on business combinations | 1,647                           | -   | 1,647  |
| Total non-current liabilities                   | 1,697,113                       | 77,482  | 1,774,595  |
| Total liabilities                               | 1,971,724                       | 81,902  | 2,053,626  |
| Unitholders' equity                             | 824,983                         | -   | 824,983  |
| Total liabilities and unitholders' equity       | 2,796,707                       | 81,902  | 2,878,609  |

(1) Represents Chartwell's proportionate share of the assets and liabilities of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

The following table provides a reconciliation of the December 31, 2015 Balance Sheet from an IFRS basis to this MD&A's presentation at Chartwell's Interest:

| (\$000s)  | December 31, 2015<br>IFRS basis | Equity<br>Accounted<br>Investments <sup>(1)</sup> | December 31, 2015<br>Chartwell's<br>Interests <sup>(2)</sup> |
|---|---------------------------------|---|--|
| <b>Assets</b>                                   |                                 |   |  |
| Current assets:                                 |                                 |   |  |
| Cash and cash equivalents                       | 3,002                           | 5,852   | 8,854  |
| Trade and other receivables                     | 7,948                           | 471   | 8,419  |
| Capital funding receivable                      | 5,243                           | -   | 5,243  |
| Other assets                                    | 16,938                          | 3,251   | 20,189   |
| Total current assets                            | 33,131                          | 9,574   | 42,705   |
| Non-current assets:                             |                                 |   |  |
| Other assets                                    | 3,733                           | -   | 3,733  |
| Loans receivable                                | 15,764                          | -   | 15,764   |
| Capital funding receivable                      | 56,198                          | -   | 56,198   |
| Investment in joint ventures                    | 33,993                          | (33,993)  | -  |
| Intangible assets                               | 57,202                          | 27  | 57,229   |
| PP&E  | 2,399,368                       | 105,920   | 2,505,288  |
| Total non-current assets                        | 2,566,258                       | 71,954  | 2,638,212  |
| Total assets                                    | 2,599,389                       | 81,528  | 2,680,917  |
| <b>Liabilities and Unitholders' Equity</b>      |                                 |   |  |
| Current liabilities:                            |                                 |   |  |
| Credit Facility                                 | 32,000                          | -   | 32,000   |
| Accounts payable and other liabilities          | 114,036                         | 3,498   | 117,534  |
| Distributions payable                           | 8,243                           | -   | 8,243  |
| Mortgages payable                               | 159,699                         | 12,802  | 172,501  |
| Total current liabilities                       | 313,978                         | 16,300  | 330,278  |
| Non-current liabilities:                        |                                 |   |  |
| Mortgages payable                               | 1,371,659                       | 65,228  | 1,436,887  |
| Convertible debentures                          | 161,754                         | -   | 161,754  |
| Class B Units                                   | 20,943                          | -   | 20,943   |
| Deferred consideration on business combinations | 1,535                           | -   | 1,535  |
| Total non-current liabilities                   | 1,555,891                       | 65,228  | 1,621,119  |
| Total liabilities                               | 1,869,869                       | 81,528  | 1,951,397  |
| Unitholders' equity                             | 729,520                         | -   | 729,520  |
| Total liabilities and unitholders' equity       | 2,599,389                       | 81,528  | 2,680,917  |

(1) Represents Chartwell's proportionate share of the assets and liabilities of our joint ventures that are accounted for using the equity method of accounting.

(2) Non-GAAP; represents Chartwell's proportionate share of interests in our entire portfolio of investments.

## Critical Accounting Policies and Estimates

Under IFRS, it is necessary to make estimates when preparing the financial statements and then to re-evaluate the original estimates used on an ongoing basis. Management's estimates are based on past experience and other factors that it believes are reasonable under the circumstances. As this involves varying degrees of judgement and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

### ***Valuation of PP&E***

PP&E makes up approximately 93% of our assets. On an annual basis, and when indicators of impairment exist, we evaluate whether the recoverable amount of a cash generating unit ("CGU") exceeds its carrying amount. Factors which could indicate that impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, significant negative industry or economic trends, or a change in the strategy for our overall business. In some cases, these events are clear, however, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events may occur over a period of time leading to an indication that an asset may be impaired. As a result, events occurring in these situations may not be known until a date subsequent to their occurrence.

Our business, markets and business environment are continually monitored, and judgements and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a) fair value less costs to sell, and b) the value in use calculated on a discounted cash flow basis. Both the identification of events that may trigger impairment and the estimates of future cash flows and the fair value of the asset require considerable judgement.

The assessment of asset impairment requires management to make significant assumptions about future revenues including assumptions about rates and occupancies, labour and other supply rates, and utility costs over the life of the PP&E. Actual results can, and often do, differ from these estimates, and can have either a positive or negative impact on the estimate and whether an impairment situation exists. In addition, when impairment tests are performed, the estimated useful lives of the properties are reassessed, with any change accounted for prospectively.

### ***Income taxes***

In accordance with IFRS, we use the asset and liability method of accounting for deferred income taxes and provide for deferred income taxes for all significant temporary differences between the carrying amounts of associated liabilities for financial reporting purposes and the amounts used for taxation purposes.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes along with the expected reversal pattern of these temporary differences. These differences result in deferred tax assets and liabilities which are included in our balance sheet, calculated based on the estimated tax rate in effect at the time these differences reverse.

Judgement is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets are realizable. The impact of different interpretations and applications could potentially be material.

An assessment must also be made to determine the likelihood that the Trust's deferred tax assets will be recovered from future taxable income. To the extent that recovery is considered less rather than more



likely, deferred tax assets are not recognized. Judgement is required in determining the provision for income taxes, and deferred income tax assets and liabilities. To the extent the recognition of deferred tax assets is revised, current period earnings would be affected.

## ***Fair value***

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an orderly transaction (that is, other than in a forced or liquidation sale) between market participants. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. We assess fair value based on estimated discounted cash flow projections and available market information. Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates (including the historical operating results and anticipated trends, local markets and economic conditions).

Our financial statements are affected by fair value measures. The most significant areas affected are as follows:

- As discussed in the “Valuation of PP&E” section, an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of carrying value over its recoverable amount.
- Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the recoverable amount to carrying value to determine if an impairment loss is required to be recognized.

## ***Changes in Accounting Estimates and Changes in Accounting Policies***

Our significant accounting policies are described in Note 2 of our Financial Statements. Notes 2 (n) and (o) outline 2016 accounting policy change and future accounting policy changes.

## **Controls and Procedures**

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. We continue to make significant investments in improvements to our information systems and financial processes to further strengthen our internal controls. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management’s assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

## ***Disclosure Controls and Procedures***

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President & Chief Executive Officer and Chief Financial Officer & Chief Investment Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2016, an evaluation was carried out, under the supervision of and with the participation of management, including the President & Chief Executive Officer and Chief Financial Officer & Chief Investment Officer, of the effectiveness of Chartwell's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President & Chief Executive Officer and Chief Financial Officer & Chief Investment Officer concluded that the design and operation of Chartwell's disclosure controls and procedures were effective December 31, 2016.

## ***Internal Control over Financial Reporting***

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President & Chief Executive Officer and the Chief Financial Officer & Chief Investment Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2016, and based on that assessment determined that our internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the 2013 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

During the period beginning October 1, 2016 and ending December 31, 2016, we completed the first phase of implementation of our new Human Capital Management System. We have considered the corresponding control risks and have performed procedures to obtain reasonable assurance on the design and operation of internal controls over financial reporting that are new or are significantly modified.

Other than the above-mentioned item, there were no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **Forward-Looking Information and Risks and Uncertainties**

### ***Forward-Looking Information***

This MD&A contains forward-looking information that reflects the current expectations, estimates and projections of management about the future results, performance, achievements, prospects or opportunities for Chartwell and the seniors housing industry. The words "plans", "expects", "does not expect", "is expected", "budget", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, and that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions

which may prove to be incorrect:

- our assumptions concerning economic and regulatory conditions or state of the housing market and pace of new supply growth in seniors housing;
- our expectations related to future operating performance of our properties;
- our expectations regarding achievement of certain occupancy levels at our LTC and retirement communities;
- information related to the stabilization of seniors housing communities in lease-up, which is subject to the risk and uncertainty that local factors affecting occupancy levels or resident fees may result in certain communities not achieving stabilization at the times expected and is based on the assumptions that the local markets in which such communities are located remain stable and our operations in such communities are consistent with historical performance;
- information related to the expected completion date of communities under construction, which is subject to the risk and uncertainty that, due to weather conditions, availability of labour and other factors, construction may be delayed, and is subject to the assumption that there is not a significant change to the typical construction timelines for our communities;
- our ability to realize expected unlevered yields on our development projects, which are based on our estimates of stabilized occupancy, rental rates and NOI and expected total development costs;
- our expectations regarding cash distributions and cash flow from operating activities, which are subject to the risk and uncertainty that our operating performance does not meet our expectations due to occupancy levels dropping, labour and operating costs increasing, or due to other general business risks;
- our ability to renew maturing debt and to obtain new financings at favourable rates, in due course;
- our ability to access low-cost mortgage financing insured by CMHC; and
- our ability to realize benefits on technology investments.

While we anticipate that subsequent events and developments may cause our views to change, we do not intend to update forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time, including but not limited to our most recent AIF.

## ***Risks and Uncertainties ♦***

- (a) **Business Risks:** We are subject to general business risks and to risks inherent in the seniors housing industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economically viable residency fees (including anticipated increases in such fees), rent control regulations, increases in labour costs and other operating costs, possible future changes in labour relations, competition from or the oversupply of other similar properties, changes in neighbourhood or location conditions and general economic conditions, health-related risks, disease outbreaks and control risks, the imposition of increased taxes or new taxes, capital expenditures requirements, changes in interest rates and changes in

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♦ For a complete description of the Risks and Uncertainties, please refer to our most recent AIF.

the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive. Moreover, there is no assurance that the occupancy levels achieved to date and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to Chartwell.

- (b) **Real Property Ownership and Lack of Diversity:** Real property equity investments are relatively illiquid. This illiquidity will tend to limit our ability to respond to changing economic or investment conditions. By specializing in a particular type of real estate, we are exposed to adverse effects on that segment of the real estate market.
- (c) **Geographic Concentration:** Our business and operations are conducted within Canada primarily in Ontario and Quebec. A geographic concentration of our owned and leased suites, at our percentage share of ownership or leasehold interest, is described under the “Business Overview” section of this MD&A. The market value of these properties and the income generated from them could be negatively affected by changes in local, regional or national economic conditions or legislative/regulatory changes in the respective jurisdictions.
- (d) **Maintenance of Assets:** We are committed to keep our communities in a good state of repair. We fundamentally believe that by investing back into our communities we increase resident and staff satisfaction which ultimately results in better profitability of the business. We estimate that based on the average age, market position and state of repairs of our existing portfolio, the annual capital maintenance requirements are approximately 2% of annual gross property revenues. In addition to recurring maintenance capital projects, we invest in revenue enhancement and internal growth programs. The amount of these investments varies from time to time based on the volume of specific projects in progress. We take into account the recurring maintenance capital requirements of our communities in our determination of future cash flows available for distributions to Unitholders. A significant increase in recurring maintenance capital requirements of our communities could adversely impact cash available to us. The details of our actual capital asset spending for 2016 can be found in the “Capital Expenditures” section of this MD&A.
- (e) **Competition:** Numerous other owners, managers and developers of seniors housing communities compete with us in seeking residents. The existence of competing owners, managers and developers and competition for our residents could have an adverse effect on the Trust’s ability to find residents for its seniors housing communities and on the rents which may be charged, and could adversely affect our revenues and, consequently, our ability to meet debt obligations. An increased supply of suites in the regions in which we own seniors housing may have an impact on the demand for retirement community suites.
- (f) **Government Regulation:** Healthcare in Canada is subject to extensive regulation and regulatory changes. As a result, there can be no assurance that future regulatory changes in healthcare, particularly those changes affecting the seniors housing industry, will not adversely affect us. In Ontario, LTC Residence licences are issued for a fixed term which shall not exceed 30 years, after which the operators of a LTC Residence may or may not be issued a new licence. Therefore, such licences do not represent any guarantee of continued operation beyond the term of the licence. Under the Ontario Long Term Care Homes Act, the licence term for Class B and C long term care residences in Ontario has been set to expire in 2025 unless these homes are redeveloped to the new design standards. Chartwell has nine LTC Class B and C residences with 876 beds. The province has introduced a revised redevelopment program with some additional funding, however, the funding is not sufficient to allow most Class B and C long term care homes to redevelop and very few redevelopment projects are proceeding at this time. Chartwell, along with the Ontario Long Term Care Association, continues to discuss improvements to the program with the government. There is no assurance that required funding levels from the government will be obtained. The provincial regulation of LTC Residences includes the control of long-term care fees and the subsidization of LTC residents. There can be no assurance that the current level of such fees and subsidies will be continued or that such fees will increase commensurate with expenses.

- (g) **Personnel Costs:** We compete with other healthcare providers with respect to attracting and retaining qualified personnel. We are also dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Trust to enhance its wage and benefits packages in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, they can be matched by corresponding increases in rental or management revenue.
- (h) **Labour Relations:** We employ or supervise over 13,500 persons, of whom approximately 70% are represented by labour unions. Labour relations with the unions are governed by collective bargaining agreements with many different unions. There can be no assurance that we will not at any time, whether in connection with the renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on our business, operating results and financial condition. Most seniors housing communities in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act which prohibits strikes and lockouts in the seniors housing sector and therefore collective bargaining disputes are more likely to be resolved through compulsory third-party arbitration.

In jurisdictions where strikes and lockouts may be permitted, certain essential services regulations apply which ensure the continuation of resident care and most services. Non-unionized seniors housing communities may become unionized in the event they are targeted for certification by a trade union. There can be no assurance that the seniors housing communities we own that are not currently unionized will not, in the future, be subject to unionization efforts or that any such efforts will not result in the unionization of such seniors housing communities' employees.

- (i) **Growth:** The ability to grow may require the issuance of additional units and the ability to do so may not always be a viable capital-raising option. Furthermore, timing differences may occur between the issuance of additional units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive. Additionally, growth may be limited by the properties being owned in a different structure (i.e., a real estate investment trust compared with a corporation) and possibly a different economic environment. We expect that we will have opportunities to acquire properties which will be accretive and enable us to increase cash flow through improved management, but there can be no assurance that will be the case.
- (j) **Acquisition, Development:** Our external growth prospects depend in part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating the seniors housing communities acquired by the Trust. If we are unable to manage our growth, integrate our acquisitions effectively and achieve expected returns on acquisitions and development projects, our business, operating results and financial condition could be adversely affected.
- (k) **Dispositions:** From time to time we may dispose of certain assets which are considered non-strategic or non-core to our portfolio. Failure to dispose of such assets at a reasonable price may negatively impact our ability to deliver on our corporate strategies.
- (l) **Debt Financing:** We have and will continue to have substantial outstanding consolidated indebtedness comprised primarily of mortgages on our retirement and LTC communities and credit facilities.

We may not be able to renegotiate the terms of renewal of our debt at favourable rates. Chartwell currently has access to the government-backed mortgage insurance program through the National Housing Act, which is administered by CMHC. Chartwell entered into an LBA with CMHC which contains certain financial covenants related to minimum adjusted equity requirements, maximum indebtedness, debt service coverage and minimum capital and



maintenance investments in the properties securing CMHC-insured loans. There can be no guarantee that the provisions of the mortgage insurance program will not be changed in the future. To the extent that any financing requiring CMHC consent or approval is not obtained, or such consent or approval is only available on unfavourable terms, we may be required to source a conventional mortgage which may be less favourable to us than a CMHC-insured mortgage. In addition, the terms of our indebtedness generally contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the Trust. Therefore, upon an event of default under such indebtedness, our ability to make distributions will be adversely affected.

A portion of our cash flow is devoted to servicing our debt, and there can be no assurance that we will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If we were unable to meet interest or principal payments, we could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. We are also subject to the risk that any of our existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favourable as the terms of our existing indebtedness.

- (m) **Taxation:** We currently qualify as a mutual fund trust for Canadian income tax purposes.

With the enactment of the SIFT Rules and the issuance of equity capital in excess of the normal growth guidelines established by the Department of Finance, we were subject to SIFT tax effective January 1, 2007.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital are not subject to the tax. Such distributions are not currently taxable to unitholders but serve to reduce the adjusted cost base of a unitholder's units. Due to the sale of the U.S. Portfolio in 2015, a portion of our distribution was classified as non-eligible dividend which is taxable as dividend income for unitholders, and as capital dividend which is non-taxable to unitholders. In 2016, 5.1% of our distributions were classified as non-eligible dividend, 58.2% as capital dividend, and 36.7% as return of capital. In 2016, we recorded a current tax recovery of \$3.8 million related to the prior-year disposition of shares of our U.S. subsidiary. There were no SIFT taxes paid in 2016. We expect to have sufficient deductions and losses carried forward to eliminate any SIFT taxes in 2017.

There can be no assurance that income tax laws (or the judicial interpretation thereof), the administrative and/or assessing practices of the Canada Revenue Agency (the "CRA") and/or the treatment of mutual fund trusts will not be changed in a manner which adversely affects unitholders.

Although we are of the view that all our claimed expenses will be reasonable and deductible, and that our tax filing positions taken are reasonable, there can be no assurance that the CRA will agree. If the CRA successfully challenges us in any of these respects, our taxable income will change.

- (n) **Liability and Insurance:** The businesses, which are carried on, directly or indirectly, by us, entail an inherent risk of liability. Management expects that from time to time we may be subject to lawsuits as a result of the nature of such businesses. The Trust maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against us not covered by, or in excess of, our insurance could have a material adverse effect on our business, operating results and financial condition. Claims against us, regardless of their merit or eventual outcome, also may have a material adverse effect on our ability to attract residents or expand

their businesses, and will require management to devote time to matters unrelated to the operation of the business.

- (o) **Environmental Liabilities:** Under various environmental laws and regulations, we, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in our properties or disposed of at other locations sometimes regardless of whether or not we knew of or were responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the owner by private plaintiffs. Notwithstanding the above, our management is not aware of any material non-compliance, liability or other claim in connection with any of our owned properties and properties in respect of which mezzanine or vendor take back financing has been provided, nor is management aware of any environmental condition with respect to any of the properties that it believes would involve material expenditure by the Trust. It is our operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted. They are intrusive investigations that involve soil, groundwater or other sampling to confirm the absence or presence and extent of an environmental concern.

Environmental laws and regulation may change and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our business, financial condition or results of operation and distributions.

- (p) **Economic and Financial Conditions:** Adverse changes to the economic and financial conditions in Canada, the U.S. and globally could impact our ability to execute upon our operating, investing and financing strategies which, in turn, could have a material adverse impact on our business, sales, profitability and financial position.
- (q) **Joint-Venture Interests:** We have entered into joint-venture arrangements in respect of certain of our seniors housing operations. These joint-venture arrangements have the benefit of sharing the risks associated with ownership and management of such seniors housing properties including those risks described above. However, we may be exposed to adverse developments, including a possible change in control, in the business and affairs of our joint-venture partners which could have a significant impact on, or termination of, our interests in our joint ventures and could affect the value of the joint ventures to us and/or cause us to incur additional costs if we were to solely undertake the operations of the joint venture. In addition, there are risks which arise from the joint-venture arrangements themselves, including: the risk that the other joint-venture partner may exercise buy-sell, put or other sale or purchase rights which could obligate us to sell our interest or buy the other joint-venture partner's interest at a price which may not be favourable to us or at a time which may not be advantageous to us, the effect of which could be materially adverse to our financial position or resources.
- (r) **Loans Receivable:** The mezzanine and vendor take back financing that has been provided by us is secured by subordinated charges of the borrowers' interests in related projects and ranks behind other financing. If our borrowers face financial difficulty and are not able to meet their commitments to their lenders, including us, we could suffer a loss of either interest or principal or both on the loans we have advanced, since other lenders will rank ahead of us in any recovery. Additionally, we may not, at the applicable time, have the financial capacity to acquire all facilities that we are entitled or required to acquire from borrowers. There is a risk, if property values deteriorate or the financial capacity of the borrowers deteriorates, that we could suffer losses on such loans.



- (s) **Distributions:** Our distributions are made at the discretion of the Trustees based on forward-looking cash flow information, including forecasts and budgets, results of operations, requirements for capital expenditures and working capital, future financial prospects, debt covenants and obligations, and any other factors considered relevant by them in setting the distribution rate. Items such as principal repayments, capital expenditures, variances in operating results and redemption of units, if any, or the failure of CSH Trust or Master LP to make distributions, may affect AFFO and, therefore, distributions. We may be required to decrease our distributions in order to accommodate such items. Under the terms of our Credit Facilities, distributions to unitholders are limited to 100% of our AFFO.
- (t) **Management Contracts:** We earn management fees from non-owned residences that we manage for others. We will not earn this revenue if the management agreements with the residences' owners are terminated or not renewed upon their expiry. Such contracts are generally terminable upon 90 days' notice, with the exception of management agreements on the Welltower properties and management agreements on properties with mezzanine loans advanced by us.
- (u) **Cyber Security:** Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for Chartwell and the seniors housing industry. Cyber-attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use, or disrupting business operations. Such an attack could compromise our confidential information as well as that of our residents, employees, and third parties with whom we interact and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage. As a result, Chartwell continually monitors for malicious threats and adapts accordingly in an effort to ensure we maintain high privacy and security standards. Chartwell invests in cyber defense technologies to support our business model and to protect our systems, residents and employees by employing industry best practices. Our investments continue to manage the risks we face today and position Chartwell for the evolving threat landscape.

## Management's Responsibility for Financial Statements

To the Unitholders of Chartwell Retirement Residences

The accompanying consolidated financial statements of Chartwell Retirement Residences and the information included in this Annual Report have been prepared by management, which is responsible for their consistency, integrity and objectivity. Management is also responsible for ensuring that the consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards. To fulfill these responsibilities, management maintains appropriate systems of internal control, policies and procedures to ensure its reporting practices and accounting and administrative procedures are of high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements in accordance with generally accepted auditing standards in Canada, to enable the expression of their opinion on the consolidated financial statements to the unitholders. Their report, as auditors, is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and engaging the independent auditors. The Board of Trustees carries out this responsibility through its Audit Committee, which meets regularly with management and the independent auditors. The Audit Committee is composed of three members who are independent of management. The consolidated financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The independent auditors have direct and full access to the Audit Committee and Board of Trustees.



W. Brent Binions  
*President and Chief Executive Officer*



Vlad Volodarski  
*Chief Financial Officer and Chief Investment Officer*

# Independent Auditors' Report

To the Unitholders of Chartwell Retirement Residences

We have audited the accompanying consolidated financial statements of Chartwell Retirement Residences, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chartwell Retirement Residences as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the right end.

Chartered Professional Accountants, Licensed Public Accountants

February 23, 2017  
Toronto, Canada


# Consolidated Balance Sheets

(In thousands of Canadian dollars)

December 31, 2016 and 2015

|   | Note  | 2016         | 2015         |
|---|-------|--------------|--------------|
| <b>Assets</b>   |       |              |              |
| Current assets:   |       |              |              |
| Cash and cash equivalents   |       | \$ 30,050    | \$ 3,002     |
| Trade and other receivables   |       | 18,339       | 7,948        |
| Capital funding receivable  | 6     | 5,663        | 5,243        |
| Other assets  | 7     | 14,900       | 16,938       |
| Total current assets  |       | 68,952       | 33,131       |
| Non-current assets:   |       |              |              |
| Other assets  | 7     | 3,449        | 3,733        |
| Loans receivable  | 8     | 10,528       | 15,764       |
| Capital funding receivable  | 6     | 54,510       | 56,198       |
| Investment in joint ventures  | 9(b)  | 30,822       | 33,993       |
| Intangible assets   | 5     | 57,598       | 57,202       |
| Property, plant and equipment ("PP&E")                              | 4     | 2,570,848    | 2,399,368    |
| Total non-current assets  |       | 2,727,755    | 2,566,258    |
| Total assets  |       | \$ 2,796,707 | \$ 2,599,389 |
| <b>Liabilities and Unitholders' Equity</b>                          |       |              |              |
| Current liabilities:  |       |              |              |
| Secured revolving operating credit facilities ("Credit Facilities") | 10(b) | \$ –         | \$ 32,000    |
| Accounts payable and other liabilities                              | 12    | 121,870      | 114,036      |
| Distributions payable   |       | 9,046        | 8,243        |
| Mortgages payable   | 10(a) | 143,695      | 159,699      |
| Total current liabilities   |       | 274,611      | 313,978      |
| Non-current liabilities:  |       |              |              |
| Mortgages payable   | 10(a) | 1,498,077    | 1,371,659    |
| Secured revolving operating credit facilities                       | 10(b) | 172,000      | –            |
| Deferred consideration on business combinations                     |       | 1,647        | 1,535        |
| Convertible debentures  | 11    | –            | 161,754      |
| Class B Units of Chartwell Master Care LP ("Class B Units")         | 14    | 23,871       | 20,943       |
| Deferred tax liabilities  | 23    | 1,518        | –            |
| Total non-current liabilities                                       |       | 1,697,113    | 1,555,891    |
| Total liabilities   |       | 1,971,724    | 1,869,869    |
| Unitholders' equity   | 15    | 824,983      | 729,520      |
| Commitments and contingencies                                       | 24    |              |              |
| Subsequent events   | 27    |              |              |
| Total liabilities and unitholders' equity                           |       | \$ 2,796,707 | \$ 2,599,389 |

Approved by the Trustees:



Huw Thomas, Trustee



Sidney Robinson, Trustee

# Consolidated Statements of Comprehensive Income

(In thousands of Canadian dollars)

Years ended December 31, 2016 and 2015

|  | Note | 2016       | 2015       |
|--|------|------------|------------|
| Revenue:   |      |            |            |
| Resident   |      | \$ 714,380 | \$ 643,914 |
| Management and other fees  |      | 8,777      | 7,815      |
| Lease revenue from joint ventures  | 9(b) | 33,803     | 33,000     |
| Interest on loans receivable   |      | 1,252      | 1,142      |
|  |      | 758,212    | 685,871    |
| Expenses (income):   |      |            |            |
| Direct property operating  | 26   | 495,227    | 463,535    |
| Depreciation of PP&E   | 4    | 145,586    | 113,756    |
| Amortization of intangible assets  | 5    | 1,169      | 661        |
| Share of net (income) loss from joint ventures   | 9(b) | (4,691)    | 186        |
| General, administrative and trust  | 26   | 33,838     | 30,771     |
| Other expense (income)   | 20   | 1,985      | (2,669)    |
| Finance costs  | 21   | 68,778     | 72,077     |
| Change in fair values of financial instruments and foreign exchange gains                                | 22   | 17,003     | 2,291      |
|  |      | 758,895    | 680,608    |
| Income (loss) before income taxes  |      | (683)      | 5,263      |
| Income tax benefit (expense):  | 23   |            |            |
| Current  |      | (27)       | (1,340)    |
| Deferred   |      | —          | 8,216      |
|  |      | (27)       | 6,876      |
| Income (loss) from continuing operations   |      | (710)      | 12,139     |
| Discontinued operations:   |      |            |            |
| Net income from discontinued operations, net of income taxes   | 13   | 5,506      | 350,094    |
| Net income   |      | 4,796      | 362,233    |
| Other comprehensive income (loss):   |      |            |            |
| Unrealized foreign currency gain on translation of foreign operations considered discontinued operations |      | —          | 5,945      |
| Reclassification of foreign currency translation differences on disposition of U.S. segment              |      | —          | (10,599)   |
| Total comprehensive income   |      | \$ 4,796   | \$ 357,579 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Unitholders' Equity

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

Years ended December 31, 2016 and 2015

| 2016   | Trust Units<br>issued in<br>dollars, net | Trust Units<br>issued<br>under EUPP | EUPP<br>receivable | Accumulated<br>gains<br>(losses) | Distributions  | Other equity<br>components | Total      |
|--|--|-------------------------------------|--------------------|----------------------------------|----------------|----------------------------|------------|
| Unitholders' equity, December 31, 2015   | \$ 1,778,496                             | \$ 16,889                           | \$ (12,657)        | \$ (159,304)                     | \$ (900,450)   | \$ 6,546                   | \$ 729,520 |
| Net income   | —  | —                                   | —                  | 4,796                            | —              | —                          | 4,796      |
| Distributions to unitholders   | —  | —                                   | —                  | —                                | (104,701)      | —                          | (104,701)  |
| Trust Units issued under the Distribution Reinvestment Program ("DRIP")  | 19,725                                   | —                                   | —                  | —                                | —              | —                          | 19,725     |
| Trust Units issued on conversion of convertible debentures   | 173,194                                  | —                                   | —                  | —                                | —              | —                          | 173,194    |
| Trust Units issued on exchange of Class B Units  | 202                                      | —                                   | —                  | —                                | —              | —                          | 202        |
| Trust Units issued under the Executive Unit Purchase Plan ("EUPP"), net of cancellations and Trust Units released on settlement of EUPP receivable | 1,882                                    | (301)                               | (96)               | —                                | —              | 13                         | 1,498      |
| Interest on EUPP receivable  | —  | —                                   | (125)              | —                                | —              | —                          | (125)      |
| Distributions applied against EUPP receivable  | —  | —                                   | 874                | —                                | —              | —                          | 874        |
| Unitholders' equity, December 31, 2016   | \$ 1,973,499                             | \$ 16,588                           | \$ (12,004)        | \$ (154,508)                     | \$ (1,005,151) | \$ 6,559                   | \$ 824,983 |

During the year ended December 31, 2016, distributions were declared and paid at \$0.0459 per unit per month for the months of January and February, and \$0.046818 per unit per month from March to December. In the first two months of 2017, distributions were declared at \$0.046818 per unit per month totalling \$17,958.

| 2015  | Trust Units<br>issued in<br>dollars, net | Trust Units<br>issued<br>under EUPP | EUPP<br>receivable | Accumulated<br>gains<br>(losses) | Foreign<br>currency<br>translation<br>reserve | Distributions | Other equity<br>components | Total      |
|---|--|-------------------------------------|--------------------|----------------------------------|---|---------------|----------------------------|------------|
| Unitholders' equity, December 31, 2014  | \$ 1,743,786                             | \$ 17,873                           | \$ (13,950)        | \$ (521,537)                     | \$ 4,654                                      | \$ (803,897)  | \$ 6,669                   | \$ 433,598 |
| Net income  | —  | —                                   | —                  | 362,233                          | —   | —             | —                          | 362,233    |
| Other comprehensive loss  | —  | —                                   | —                  | —                                | (4,654)                                       | —             | —                          | (4,654)    |
| Distributions to unitholders  | —  | —                                   | —                  | —                                | —   | (96,553)      | —                          | (96,553)   |
| Trust Units issued under the Distribution Reinvestment Program ("DRIP")                                       | 18,574                                   | —                                   | —                  | —                                | —   | —             | —                          | 18,574     |
| Trust Units issued on conversion of convertible debentures  | 149                                      | —                                   | —                  | —                                | —   | —             | —                          | 149        |
| Trust Units issued on exchange of Class B Units   | 14,590                                   | —                                   | —                  | —                                | —   | —             | —                          | 14,590     |
| Trust Units issued under EUPP, net of cancellations and Trust Units released on settlement of EUPP receivable | 1,397                                    | (984)                               | 538                | —                                | —   | —             | (123)                      | 828        |
| Interest on EUPP receivable   | —  | —                                   | (134)              | —                                | —   | —             | —                          | (134)      |
| Distributions applied against EUPP receivable   | —  | —                                   | 889                | —                                | —   | —             | —                          | 889        |
| Unitholders' equity, December 31, 2015  | \$ 1,778,496                             | \$ 16,889                           | \$ (12,657)        | \$ (159,304)                     | \$ —  | \$ (900,450)  | \$ 6,546                   | \$ 729,520 |

During the year ended December 31, 2015, distributions were declared and paid at \$0.045 per unit per month for the months of January and February, and \$0.0459 per unit per month from March to December.

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2016 and 2015

|   | Note | 2016      | 2015       |
|---|------|-----------|------------|
| Cash provided by (used in):   |      |           |            |
| Operating activities:   |      |           |            |
| Net income  |      | \$ 4,796  | \$ 362,233 |
| Items not affecting cash:   |      |           |            |
| Depreciation and amortization   |      | 146,755   | 128,542    |
| Finance costs   |      | 68,778    | 89,016     |
| Other expense (income)  |      | 264       | (433,539)  |
| Transaction costs arising from business acquisitions and dispositions     |      | (5,400)   | (25,562)   |
| Interest on loans receivable  |      | (1,252)   | (1,142)    |
| Non-cash compensation expense   |      | 1,370     | 1,503      |
| Change in fair values of financial instruments and foreign exchange gains |      | 17,003    | 29,118     |
| Current income taxes  |      | (3,758)   | 57,516     |
| Deferred income taxes   |      | —         | (8,216)    |
| Share of net loss (income) from joint ventures                            |      | (4,691)   | 186        |
| Other   |      | 1,484     | 650        |
| Change in trade and other receivables                                     |      | (4,299)   | 11,759     |
| Change in other assets  |      | 3,224     | 1,380      |
| Change in accounts payable and other liabilities                          |      | 2,873     | (10,245)   |
|   |      | 227,147   | 203,199    |
| Interest and other income received  |      | 4,338     | 3,487      |
| Interest paid   |      | (73,112)  | (90,865)   |
|   |      | 158,373   | 115,821    |
| Financing activities:   |      |           |            |
| Proceeds from mortgage financing  |      | 208,970   | 282,792    |
| Mortgage repayments   |      | (106,243) | (184,440)  |
| Changes to Credit Facilities  |      | 140,000   | (13,500)   |
| Scheduled mortgage principal repayments                                   |      | (52,651)  | (56,079)   |
| Net additions to finance costs  |      | (6,308)   | (3,738)    |
| Distributions paid  |      | (83,424)  | (76,935)   |
|   |      | 100,344   | (51,900)   |
| Investing activities:   |      |           |            |
| Acquisition of assets under business combinations                         |      | (131,192) | (412,198)  |
| Additions to PP&E and intangible assets                                   |      | (122,350) | (84,395)   |
| Proceeds from disposal of PPE, net of related debt repayment              |      | 2,460     | 479,809    |
| Change in restricted cash   |      | 26        | 10,206     |
| Proceeds from capital funding receivable                                  |      | 6,289     | 5,028      |
| Change in loans receivable  |      | 5,236     | (5,818)    |
| Distributions received from joint ventures                                | 9(b) | 8,915     | 60,251     |
| Contributions to joint ventures   | 9(b) | (1,053)   | (77,591)   |
| Taxes paid on disposal of discontinued operations                         |      | —         | (47,602)   |
|   |      | (231,669) | (72,310)   |
| Increase (decrease) in cash   |      | 27,048    | (8,389)    |
| Foreign exchange gain on U.S. dollar-denominated cash                     |      | —         | 464        |
| Cash and cash equivalents, beginning of year                              |      | 3,002     | 10,927     |
| Cash and cash equivalents, end of year                                    |      | \$ 30,050 | \$ 3,002   |

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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 56.9% 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 43.1% 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.

The United States assets of Chartwell that were owned indirectly by Master LP, through its wholly owned United States subsidiary corporation, CSH Master Care USA Inc. were disposed of on June 30, 2015, and the results of operations are classified as discontinued operations in these consolidated financial statements (note 13).

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 February 23, 2017, 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.

### **(c) Basis of measurement:**

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

- (i) derivative financial instruments are measured at fair value;
- (ii) financial instruments classified as fair value through profit or loss ("FVTPL") are measured at fair value; and

(iii) 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) note 2(c) - Estimating the useful life of property, plant and equipment;
- (iii) note 2(e) - Impairment of indefinite life intangible assets; and
- (iv) note 23 - Income taxes; availability of future taxable profit for the recognition of deferred income tax assets.

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.

## **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 income 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 comprehensive income.

(iii) Business combinations:

Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill represents the cost of acquired net assets in excess of their fair value. If the fair value of the net identifiable assets acquired exceeds the fair value of consideration transferred, a bargain purchase gain is recognized immediately in profit or loss.

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.

(b) Foreign currency:

(i) Foreign currency transactions:

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.

(ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates in effect as at the consolidated balance sheet dates.

Revenue and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the dates on which such items are reported in income during the year.

Exchange gains and losses arising from translation of the financial statements of foreign operations are deferred and included in other comprehensive income. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss.

(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 include 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 have different useful lives and are accounted for as separate components of the property. 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.

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                                     | 5 years  |
| Resident contracts and above- and below-market leases | 3 years  |
| Furniture, fixtures and equipment                     | 5 years  |

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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 when Chartwell has transferred to the purchaser the significant risk and rewards of ownership of the PP&E and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation.

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.

(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) Other intangible assets:

Other intangible assets consist of software costs and management contracts.

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

Management contracts represent the acquired value of contractual agreements to provide management and advisory services for the operations of seniors residences and long-term care properties owned by third parties. Management contracts are amortized on a straight-line basis over the term of the contract or if no term is specified, over its estimated life not to exceed five years.

(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 is not reversed in subsequent years.

(e) Impairment:

(i) Financial assets:

Financial assets carried at amortized cost are assessed at each reporting date to determine whether there is objective evidence indicating the assets might be impaired. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due or indications that a debtor or issuer will enter bankruptcy.

Chartwell considers evidence of impairment for receivables at both a specific asset and collective level. All receivables are assessed for specific impairment. All receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance against the associated accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets, excluding deferred tax 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.

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 (excluding 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.

(f) Capital funding:

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

(g) Non-current assets held for sale and discontinued operations:

Non-current 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 non-current 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.

A discontinued operation is a component of Chartwell's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as discontinued operations occurs upon disposal or earlier, if the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income (loss) is restated as if the operations had been discontinued from the start of the comparative year.

(h) Financial instruments:

(i) Non-derivative financial assets:

Chartwell has classified its non-derivative financial assets into the following categories: loans and receivables, and financial assets at FVTPL.

Trade and other receivables, loans receivable, cash and restricted cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as loans and receivables. They are initially recognized on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Receivables related to income guarantees are classified as FVTPL and any gains and losses arising on remeasurement are recognized in profit or loss.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Chartwell is recognized as a separate asset or liability.

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.

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities have been classified into the following categories: other financial liabilities and financial liabilities at FVTPL.

Other financial liabilities:

Other financial liabilities primarily consist of accounts payable and other liabilities, distributions payable, mortgages payable and Credit Facilities. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest 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 liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities at FVTPL:

Financial liabilities elected to be measured at fair value are designated as FVTPL.

A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement, permits the entire combined contract, asset or liability, to be designated as FVTPL.

The convertible debentures, Class B Units and deferred consideration are designated as FVTPL. Any gains or losses arising on remeasurement are recognized in profit or loss. Interest paid on convertible debentures and distributions paid to Class B unitholders are recognized as interest expense under finance costs in profit or loss.

A financial liability is derecognized when Chartwell's contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Derivative financial instruments are subsequently remeasured to their fair value at the end of each reporting date, with any resulting gain or loss recognized in profit or loss immediately.

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.

(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.

(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.

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.

(ii) Unit-based payment plans:

Chartwell maintains an EUPP, Deferred Trust Unit Plans, and Restricted Unit Plans for its employees, directors and Trustees. These plans are considered cash-settled and the fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. 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).

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.

Chartwell uses the asset and liability method of accounting for income taxes. Under this method, 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.

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. Deferred tax assets are reviewed at each reporting date and 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:

Revenue in respect of accommodation and care services provided to residents of retirement communities is recognized when services, both rental and care are provided. In certain jurisdictions, residents of retirement communities are eligible for government subsidies and the rates of these subsidies are regulated. In Canada, 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 accommodation fees and ancillary services provided to residents of Canadian long-term care communities is recognized when the rental or ancillary services are provided.

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 earned is recognized as services are rendered. Certain revenue is earned only when Chartwell has achieved actual census and has met additional criteria, which may include achieving certain levels of expenditures or levels of labour hours. In such cases, revenue is recognized when these criteria are achieved.

In certain cases, the funding agency provides additional funding in excess of the amounts due for actual census if certain minimum occupancy levels are achieved over the funding agency's annual cycle. Revenue for funding in excess of amounts due for actual census is recognized when Chartwell has achieved the required occupancy criteria, on a proportionate basis, to earn such funding and where management expects to continue to achieve the occupancy criteria through to the completion of the funding agency's annual cycle.

(iii) Fee revenue:

Chartwell provides property management services for both third party and owned real estate properties. Property management services revenue relates to providing certain operations management and asset management services to third parties and is recognized when services are performed in accordance with the terms of the management contract.

(iv) Lease revenue from joint ventures:

Chartwell earns revenue under lease arrangements with operating entities which are jointly owned with Welltower Inc. (note 9). The leases are accounted for as operating leases and lease revenue is recognized over the term of the underlying leases.

(m) Lease payments:

Chartwell is obligated to make payments under land and equipment 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 2016:

(i) Business combination accounting for interests in a joint operation (Amendments to IFRS 11, Joint Arrangements ("IFRS 11")):

On May 6, 2014, the IASB amended IFRS 11 related to the accounting for acquisitions of interests in joint operations. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments require business combination accounting to be applied to acquisitions of interest in joint operations that constitute a business. Chartwell has prospectively adopted the amendments to IFRS 11 on January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

- (ii) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38, Intangible Assets ("IAS 38")):

On May 12, 2014, the IASB issued amendments to IAS 16 and IAS 38. Under the amendments, revenue-based methods of depreciation can no longer be used for property, plant and equipment, and a rebuttable presumption that revenue-based methods are not appropriate has been introduced for intangible assets. Chartwell prospectively adopted the amendments to IAS 16 and IAS 38 on January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

- (iii) Annual Improvements to IFRS (2012 - 2014) cycle:

On September 25, 2014, the IASB issued narrow-scope amendments as part of its annual improvements process. The amendments apply for annual periods beginning on or after January 1, 2016. The amendments clarify requirements of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, IFRS 7, Financial Instruments - Disclosures, IAS 19 and Employee Benefits. Chartwell adopted these amendments on January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

- (iv) Amendments to IAS 1 Presentation of Financial Statements ("IAS 1"):

On December 18, 2014, the IASB issued amendments to IAS 1, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. Chartwell has adopted these amendments in its consolidated financial statements. The adoption of these amendments did not have a material impact on the consolidated financial statements.

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

- (i) Disclosure Initiative (Amendments to IAS 7, Statement of Cash Flows ("IAS 7")):

On January 7, 2016, the IASB issued amendments to IAS 7. The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Chartwell intends to adopt the amendments to IAS 7 in its financial statements for the year beginning on January 1, 2017 and satisfy the new requirements by disclosing a reconciliation between the opening and closing balances for liabilities from financing activities.

- (ii) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12, Income Taxes ("IAS 12")):

On January 19, 2016 the IASB issued amendments to IAS 12. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. Chartwell will adopt the amendments to IAS 12 in its financial statements for the year beginning on January 1, 2017 and does not expect the amendments will have a material impact on the financial statements.

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

On June 20, 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled, share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Chartwell intends to adopt the amendments to IFRS 2 in its financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the amendment has not yet been determined.

(iv) IFRS 9, Financial Instruments ("IFRS 9 (2014)"):

On July 24, 2014, the IASB issued the complete IFRS 9 (2014). The effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and it must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, changes to financial liabilities, amendments to the impairment model for "expected credit loss", and a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. Chartwell intends to adopt IFRS 9 (2014) in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the new standard has not yet been determined.

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

On January 13, 2016, the IASB issued 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 intends to adopt these amendments in its consolidated financial statements for the year beginning on January 1, 2019. The extent of the impact of adoption of the new standard has not yet been determined.

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

On May 28, 2014, the IASB issued IFRS 15. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and Standing Interpretation Committee 31, Revenue - Barter Transactions

Involving Advertising Services. The standard contains a single 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. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. Chartwell intends to adopt IFRS 15 in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

### 3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2016:

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

| Date of acquisition                    | March 15,<br>2016              | April 21,<br>2016               | May 2,<br>2016         | June 2,<br>2016        | September 1,<br>2016   |                                  |
|--|--------------------------------|---------------------------------|------------------------|------------------------|------------------------|----------------------------------|
| Segment                                | Canadian Retirement Operations |                                 |                        |                        |                        |                                  |
| Location                               | Province of<br>Ontario         | Province of<br>British Columbia | Province of<br>Ontario | Province of<br>Ontario | Province of<br>Ontario | Step<br>accounting               |
| Number of properties (suites)          | 1 (105 suites)                 | 1 (97 suites) <sup>(1)</sup>    | 1 (109 suites)         | 1 (127 suites)         | 1 (121 suites)         | adjustments <sup>(1)</sup> Total |
| PP&E                                   | \$ 66,166                      | \$ 11,841                       | \$ 37,405              | \$ 70,324              | \$ 31,501              | \$ 217,237 \$ 11,841 \$22        |
| 9,078                                  |                                |                                 |                        |                        |                        |                                  |
| Goodwill                               | —                              | 1,017                           | —                      | —                      | —                      | 1,017 — 1,017                    |
| Deferred tax liability                 | —                              | (1,518)                         | —                      | —                      | —                      | (1,518) — (1,518)                |
| Net assets<br>acquired                 | \$ 66,166                      | \$ 11,340                       | \$ 37,405              | \$ 70,324              | \$ 31,501              | \$ 216,736 \$ 11,841 \$22        |
| 8,577                                  |                                |                                 |                        |                        |                        |                                  |
| Cash consideration                     | \$ 131,192                     | \$ 5,925                        | \$ 17,252              | \$ 46,263              | \$ 31,501              | \$ 131,192 \$ —                  |
| Mortgages assumed                      | 35,915                         | 5,415                           | 20,153                 | 24,061                 | —                      | 85,544 5,416 90,960              |
| Fair value of previously held interest | —                              | —                               | —                      | —                      | —                      | — 6,425 6,425                    |
| 8,577                                  | \$ 66,166                      | \$ 11,340                       | \$ 37,405              | \$ 70,324              | \$ 31,501              | \$ 216,736 \$ 11,841 \$22        |

<sup>(1)</sup> Chartwell acquired the remaining interest in one previously held investment in a joint arrangement. These figures represent the fair value of the remaining interest acquired. Step acquisition adjustments are included under the heading "Step accounting adjustments".



On March 15, 2016, Chartwell acquired a 100% interest in a 105-unit retirement residence located in Ottawa, Ontario. The purchase price before closing costs and mortgage mark-to-market adjustment was \$63,650 and was settled by the assumption of a \$33,399 mortgage, bearing interest at 4.41% and maturing on September 1, 2024 and cash. Chartwell recorded a mortgage mark-to-market adjustment of \$2,516 with respect to the assumed mortgage. The property has contributed revenue of \$5,028 and net loss of \$3,725 since the acquisition. Chartwell incurred acquisition-related costs of \$1,808, which have been expensed in the consolidated statements of comprehensive income.

On April 21, 2016, Chartwell acquired from its partner all outstanding shares of a corporation that owns a 50% interest in a 97-suite Chartwell Kamloops Retirement Residence ("Kamloops"). The purchase price was \$5,925, representing the agreed-upon value of the 50% interest in Kamloops of \$11,150, net of the company's share of the mortgage debt of \$5,225 and was settled in cash. The assumed mortgage bears interest at 3.95% and matures on October 1, 2019. Chartwell recorded a mortgage mark-to-market adjustment of \$190 with respect to the assumed mortgage. Chartwell also recorded a deferred tax liability of \$1,518 and goodwill of \$1,017. Upon completion of this transaction, Chartwell owns 100% interest in the property. As the Kamloops acquisition was completed in steps, Chartwell has remeasured its original 50% interest to fair value. This remeasurement has resulted in an increase in value of \$5,187, which has been recognized as a gain in other expense (income) in consolidated statements of comprehensive income. Kamloops has contributed revenue of \$2,660 and net income of \$122 since the acquisition date. Chartwell incurred acquisition-related costs of \$19, which have been expensed in the consolidated statements of comprehensive income.

On May 2, 2016, Chartwell acquired a 100% interest in a 109-suite retirement residence located in Brockville, Ontario. The purchase price before closing costs and mortgage mark-to-market adjustment was \$37,100 and was settled by the assumption of a \$19,848 mortgage, bearing interest at 4.29% and maturing on April 1, 2017 and cash. Chartwell recorded a mortgage mark-to-market adjustment of \$305 with respect to the assumed mortgage. The property has contributed revenue of \$3,762 and net loss of \$1,342 since acquisition. Chartwell incurred acquisition-related costs of \$709, which have been expensed in the consolidated statements of comprehensive income.

On June 2, 2016, Chartwell acquired a 100% interest in a 127-unit retirement residence located in Ottawa, Ontario. The purchase price before closing costs and mortgage mark-to-market adjustment was \$68,350 and was settled by assumption of a \$22,087 mortgage, bearing interest at 4.56% and maturing on March 1, 2020 and cash. Chartwell recorded a mortgage mark to market adjustment of \$1,974 with respect to the assumed mortgage. The property has contributed revenue of \$4,158 and net loss of \$2,882 since acquisition. Chartwell incurred acquisition-related costs of \$1,910, which have been expensed in the consolidated statements of comprehensive income.

On September 1, 2016, Chartwell acquired a 100% interest in a 121-unit retirement residence located in Midland, Ontario. The purchase price before working capital adjustments and closing costs was \$31,501 and was settled in cash. The property has contributed revenue of \$1,130 and net loss of \$937 since acquisition. Chartwell incurred acquisition-related costs of \$563, which have been expensed in the consolidated statements of comprehensive income.

(b) Acquisitions during the year ended December 31, 2015:

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:

| Date of acquisition                    | May 4, 2015                    | June 1, 2015                  | July 31, 2015       | August 5, 2015     | September 11, 2015  | November 9, 2015    |                             |
|--|--------------------------------|-------------------------------|---------------------|--------------------|---------------------|---------------------|-----------------------------|
| Segment                                | Canadian Retirement Operations |                               |                     |                    |                     |                     |                             |
| Location                               | Province of Ontario            | Province of Ontario           | Province of Ontario | Province of Quebec | Province of Ontario | Province of Ontario | Step and equity accounting  |
| Number of properties (suites)          | 1 (94 suites)                  | 2 (268 suites) <sup>(1)</sup> | 1 (257 suites)      | 1 (90 suites)      | 3 (447 suites)      | 5 (616)             |                             |
| suites) <sup>(2)</sup>                 | Subtotal                       | adjustments <sup>(1)(2)</sup> | Total               |                    |                     |                     |                             |
| PP&E                                   | \$ 22,100                      | \$ 41,120                     | \$ 83,979           | \$ 15,223          | \$ 169,319          | \$ 259,131          | \$ 590,872 \$ (34,881) \$ 5 |
| 55,991                                 |                                |                               |                     |                    |                     |                     |                             |
| Goodwill                               | —                              | —                             | —                   | —                  | —                   | 8,216               | 8,216                       |
| Deferred tax liability                 | —                              | —                             | —                   | —                  | —                   | (8,216)             | (8,216)                     |
| Net assets acquired                    | \$ 22,100                      | \$ 41,120                     | \$ 83,979           | \$ 15,223          | \$ 169,319          | \$ 259,131          | \$ 590,872 \$ (34,881) \$ 5 |
| 55,991                                 |                                |                               |                     |                    |                     |                     |                             |
| Cash consideration                     | \$ 22,100                      | \$ 20,274                     | \$ 83,979           | \$ 4,686           | \$ 169,800          | \$ 187,359          | \$ 488,198 \$ (76,000) \$ 4 |
| 12,198                                 |                                |                               |                     |                    |                     |                     |                             |
| Mortgages assumed                      | —                              | 20,846                        | —                   | 9,244              | —                   | —                   | —                           |
|  | 56,636                         | 86,726                        | 20,846              | 107,572            | —                   | —                   | —                           |
| Income support receivable              | —                              | —                             | —                   | (162)              | (1,987)             | —                   | (2,149)                     |
| Mezzanine loan settled                 | —                              | —                             | —                   | 1,455              | —                   | —                   | 1,455                       |
| Deferred consideration                 | —                              | —                             | —                   | —                  | 1,506               | —                   | 1,506                       |
| Class B Units issued                   | —                              | —                             | —                   | —                  | —                   | 15,136              | 15,136                      |
| Fair value of previously held interest | —                              | —                             | —                   | —                  | —                   | —                   | 20,273                      |
|  | \$ 22,100                      | \$ 41,120                     | \$ 83,979           | \$ 15,223          | \$ 169,319          | \$ 259,131          | \$ 590,872 \$ (34,881) \$ 5 |
| 55,991                                 |                                |                               |                     |                    |                     |                     |                             |

<sup>(1)</sup> Chartwell acquired the remaining interest in two previously held investments in joint arrangements. These figures represent the fair value of the remaining interests acquired. Step acquisition adjustments are included under the heading "Step and equity accounting adjustments".

<sup>(2)</sup> This includes the acquisition of two investments in joint ventures. These investments are eliminated from the table under the heading "Step and equity accounting adjustments".

On May 4, 2015, Chartwell acquired a 100% interest in a 94-unit retirement residence located in Thunder Bay, Ontario. The purchase price was \$22,100. The property has contributed revenue of \$3,990 (2015 - \$2,305) and net income of \$542 (2015 - net loss of \$414) since the acquisition date. Chartwell incurred acquisition-related costs of \$773, which have been expensed in the consolidated statement of comprehensive income in 2015.

On June 1, 2015, Chartwell acquired the remaining 50% interests in Valley Vista Retirement Residence (151 suites) and Pickering City Centre Retirement Residence (117 suites). Upon completion of these transactions, Chartwell owned a 100% interest in the properties. The purchase price was \$40,076 and was partially settled through the assumption of mortgages totalling \$19,802. A mortgage mark-to-market adjustment of \$1,044 was recorded on one of the assumed mortgages. Since these acquisitions were completed in steps, immediately before the acquisition, Chartwell remeasured its original 50% interests to its fair value. This remeasurement has resulted in an increase in value of \$10,452, which has been recognized as a gain in other expense (income) in the consolidated statements of comprehensive income. These properties have contributed revenue of \$10,822 (2015 - \$6,210) and net loss of \$341 (2015 - \$677) since the acquisition date. Chartwell incurred acquisition-related costs of \$673, which have been expensed in the consolidated statement of comprehensive income in 2015.

On July 31, 2015, Chartwell acquired a 100% interest in the Grenadier Retirement Residence in Toronto, Ontario (257 suites). The purchase price was \$83,979 and was settled in cash. The property has contributed revenue of \$13,507 (2015 - \$5,473) and net loss of \$2,078 (2015 - \$1,799) since the acquisition date. Chartwell incurred acquisition-related costs of \$2,444, which have been expensed in the consolidated statement of comprehensive income in 2015.

On August 5, 2015, Chartwell completed the acquisition of an 85% interest in a 90-suite addition (Phase II) to the existing 169-suite L'Unique retirement residence in Ste. Eustache, Quebec from entities affiliated with Batimo Inc. ("Batimo"). The purchase price of \$15,385 (\$18,100 at 100%) was settled through the assumption of a construction loan of \$9,244 (\$10,875 at 100%), settlement of the Chartwell mezzanine loan to Batimo of \$1,455 and cash. Batimo has provided Chartwell with an income support guarantee of up to \$162 if operating results fall below certain threshold amounts. L'Unique has contributed revenue of \$1,860 (2015 - \$531) and net loss of \$517 (2015 - \$301) since the acquisition date. Chartwell incurred acquisition-related costs of \$130, which have been expensed in the consolidated statement of comprehensive income in 2015.

On September 11, 2015, Chartwell acquired from three separate vendor groups, 100% interests in three retirement residences in Ontario totalling 447 suites and excess land for the development of up to 69 additional suites. The purchase price was \$171,645. Included in the purchase price is a deferred payment of \$1,845 due on the third anniversary of closing. This deferred consideration was recorded at its fair value of \$1,506. The vendor of another property provided Chartwell with an income support guarantee of up to \$2,500 if operating results fall below certain threshold amounts. This income support receivable was recorded at its fair value of \$1,987. The properties have contributed revenue of \$19,896 (2015 - \$5,389) and net loss of \$613 (2015 - \$4,887) since the acquisition date. Chartwell incurred acquisition-related costs of \$4,108, which have been expensed in the consolidated statement of comprehensive income in 2015.

On November 9, 2015, Chartwell acquired interests in five retirement residences in Ontario with a total of 616 suites, from five separate groups of vendors for an aggregate purchase price of \$254,007 before closing costs, mortgage mark-to-market and tax adjustments. The purchase price was settled by the assumption of two mortgages totaling \$51,512, bearing interest at a weighted average interest rate of 4.5% with the average term to maturity of 4.6 years, the issuance of \$15,136 of Class B Units and cash. One of the acquired properties is subject to a land lease that expires in 2056. Chartwell recorded a mortgage mark-to-market adjustment of \$5,124 with respect to the assumed mortgages. Chartwell also recorded a deferred tax liability and goodwill in the amount of \$8,216.

The acquisitions of two properties have been structured as acquisitions of interests in limited partnerships that own the related retirement residences. Chartwell owns all outstanding Class C Units of the partnerships and the affiliates of the vendors own all outstanding Class R Units. Under the partnership agreements, Class C Units are entitled to quarterly distributions totaling \$4,750 for 2016, increasing by 3% per annum thereafter until December 31, 2018. Class R Units are entitled to residual distributions up to a certain maximum. Once such maximum is achieved, the remaining distributions will be made in the ratio of 65% to Class C Units and 35% to Class R Units. The vendors of these properties and their affiliates provided the limited partnerships with the net operating income guarantees sufficient to effect the required Class C distributions. Signature Senior Living, an affiliate of one of the vendors, will continue to manage these two properties until December 31, 2018. In January 2019, Chartwell will be required to acquire all outstanding Class R Units. The purchase price will be equal to the excess of the actual combined net operating income achieved for the year ended December 31, 2018, over the guaranteed income for that year, divided by 6.25%. Chartwell's interests in these properties are accounted for using the equity method of accounting (note 9).

The three properties in which Chartwell has a direct interest and which have been accounted for as business combinations, have contributed revenue of \$23,270 (2015 - \$3,244) and net loss of \$69 (2015 - \$2,931) since the acquisition date. Chartwell incurred acquisition-related costs of \$2,790 with respect to these three properties, which has been expensed in the consolidated statement of comprehensive income in 2015.

#### 4. *Property, plant and equipment:*

|   | Land       | Buildings    | Furniture,<br>fixtures and<br>equipment | Properties<br>under<br>development | Land<br>held for<br>development | Total        |
|---|------------|--------------|---|------------------------------------|---------------------------------|--------------|
| <b>Cost</b>   |            |              |   |                                    |                                 |              |
| Balance, January 1, 2015  | \$ 327,865 | \$ 2,723,321 | \$ 97,058                               | \$ 14,658                          | \$ 27,211                       | \$ 3,190,113 |
| Additions   | —          | 60,839       | 8,413                                   | 13,291                             | —                               | 82,543       |
| Additions through business combinations                         | 34,212     | 509,674      | 11,105                                  | —                                  | 1,000                           | 555,991      |
| Disposals   | (90,973)   | (749,075)    | (33,541)                                | —                                  | (9,839)                         | (883,428)    |
| Derecognition   | —          | (29,423)     | (997)                                   | —                                  | —                               | (30,420)     |
| Transfers   | 547        | 10,268       | 628                                     | (13,204)                           | —                               | (1,761)      |
| Exchange differences on translation of United States Operations | 5,206      | 42,331       | 1,864                                   | —                                  | 504                             | 49,905       |
| Balance, December 31, 2015                                      | 276,857    | 2,567,935    | 84,530                                  | 14,745                             | 18,876                          | 2,962,943    |
| Additions   | —          | 58,018       | 11,379                                  | 45,423                             | 8,615                           | 123,435      |
| Additions through business combinations                         | 12,155     | 211,812      | 4,511                                   | —                                  | 600                             | 229,078      |
| Disposals   | (4,378)    | (37,823)     | (1,729)                                 | —                                  | —                               | (43,930)     |
| Derecognition   | —          | (218,664)    | (1,221)                                 | —                                  | —                               | (219,885)    |
| Capital subsidy receivable                                      | —          | (5,021)      | —                                       | —                                  | —                               | (5,021)      |
| Transfers   | 426        | 981          | 1,177                                   | 1,911                              | (5,034)                         | (539)        |
| Balance, December 31, 2016                                      | \$ 285,060 | \$ 2,577,238 | \$ 98,647                               | \$ 62,079                          | \$ 23,057                       | \$ 3,046,081 |
| <b>Accumulated depreciation and impairment losses</b>           |            |              |   |                                    |                                 |              |
| Balance, January 1, 2015  | \$ —       | \$ 632,621   | \$ 64,366                               | \$ 2,422                           | \$ 1,103                        | \$ 700,512   |
| Depreciation  | —          | 114,687      | 12,939                                  | —                                  | —                               | 127,626      |
| Disposals   | —          | (223,734)    | (25,746)                                | —                                  | (1,103)                         | (250,583)    |
| Derecognition   | —          | (29,423)     | (997)                                   | —                                  | —                               | (30,420)     |
| Impairment, net   | —          | 3,755        | —                                       | —                                  | —                               | 3,755        |
| Exchange differences on translation of United States Operations | —          | 11,320       | 1,365                                   | —                                  | —                               | 12,685       |
| Balance, December 31, 2015                                      | —          | 509,226      | 51,927                                  | 2,422                              | —                               | 563,575      |
| Depreciation  | —          | 133,039      | 12,547                                  | —                                  | —                               | 145,586      |
| Disposals   | —          | (19,020)     | (1,413)                                 | —                                  | —                               | (20,433)     |
| Derecognition   | —          | (218,664)    | (1,221)                                 | —                                  | —                               | (219,885)    |
| Impairment, net   | —          | 6,390        | —                                       | —                                  | —                               | 6,390        |
| Balance, December 31, 2016                                      | \$ —       | \$ 410,971   | \$ 61,840                               | \$ 2,422                           | \$ —                            | \$ 475,233   |
| <b>Carrying amounts</b>   |            |              |   |                                    |                                 |              |
| Balance, December 31, 2015                                      | \$ 276,857 | \$ 2,058,709 | \$ 32,603                               | \$ 12,323                          | \$ 18,876                       | \$ 2,399,368 |
| Balance, December 31, 2016                                      | 285,060    | 2,166,267    | 36,807                                  | 59,657                             | 23,057                          | 2,570,848    |

During the year ended December 31, 2016, no properties were transferred from properties under development to operating (2015 - two properties).

During the year ended December 31, 2016, Chartwell transferred \$3,349 (2015 - nil) from land held for development to properties under development related to two projects that are currently under development.

Chartwell capitalized \$1,085 of borrowing costs related to development projects under construction for the year ended December 31, 2016, at an average interest rate of 4.05% (2015 - \$240 at 4.53%).

During the year ended December 31, 2016, the cost and accumulated depreciation of PP&E was reduced by \$176,795 related to fully amortized value of resident contracts.

Chartwell completes regular assessments of PP&E to determine if any events have occurred that would indicate possible impairment of PP&E. For the year ended December 31, 2016, Chartwell recorded impairment provisions of \$7,500 on 2 properties located in Ontario and Quebec and reversed a previously recorded impairment provision of \$1,110 on one property in Quebec.

For the year ended December 31, 2015, Chartwell recorded impairment provisions of \$5,381 on four properties located in Quebec and Ontario. In addition, in 2015, Chartwell entered into an agreement to sell two properties located in Quebec. As a result, previously recorded property impairment provisions of \$1,626 were reversed.

## 5. *Intangible assets:*

|   | Goodwill | Licenses  | Other <sup>(1)</sup> | Total     |
|---|----------|-----------|----------------------|-----------|
| <b>Cost</b>   |          |           |                      |           |
| Balance, January 1, 2015  | \$ —     | \$ 44,334 | \$ 17,787            | \$ 62,121 |
| Additions   | —        | —         | 2,095                | 2,095     |
| Acquisitions  | 8,216    | —         | —                    | 8,216     |
| Disposals   | —        | —         | (10,772)             | (10,772)  |
| Transfers   | —        | —         | 1,761                | 1,761     |
| Exchange differences on translation of United States Operations | —        | —         | 641                  | 641       |
| Balance, December 31, 2015                                      | 8,216    | 44,334    | 11,512               | 64,062    |
| Additions   | —        | —         | 10                   | 10        |
| Acquisitions  | 1,017    | —         | —                    | 1,017     |
| Disposals   | —        | —         | (1)                  | (1)       |
| Transfers   | —        | —         | 539                  | 539       |
| Balance, December 31, 2016                                      | \$ 9,233 | \$ 44,334 | \$ 12,060            | \$ 65,627 |
| <b>Accumulated amortization and impairment losses</b>           |          |           |                      |           |
| Balance, January 1, 2015  | \$ —     | \$ —      | \$ 13,096            | \$ 13,096 |
| Amortization  | —        | —         | 916                  | 916       |
| Disposals   | —        | —         | (7,606)              | (7,606)   |
| Exchange differences on translation of United States Operations | —        | —         | 454                  | 454       |
| Balance, December 31, 2015                                      | —        | —         | 6,860                | 6,860     |
| Amortization  | —        | —         | 1,169                | 1,169     |
| Balance, December 31, 2016                                      | \$ —     | \$ —      | \$ 8,029             | \$ 8,029  |
| <b>Carrying amounts</b>   |          |           |                      |           |
| Balance, December 31, 2015                                      | \$ 8,216 | \$ 44,334 | \$ 4,652             | \$ 57,202 |
| Balance, December 31, 2016                                      | 9,233    | 44,334    | 4,031                | 57,598    |

<sup>(1)</sup>Other intangible assets consist of the allocated cost of acquired management contracts and software costs.

Chartwell completed its annual impairment assessment of the carrying value of licenses, which are intangible assets with indefinite useful lives, on November 30, 2016, and November 30, 2015. Licenses 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 licenses by comparing the fair value less costs to sell of the related CGUs containing the licenses, 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 analysis include capitalization rates between 8% and 12% 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, 2016 and 2015.

## 6. *Capital funding receivable:*

The following table summarizes the capital funding receivable activity:

|                                       | Amount    |
|---------------------------------------|-----------|
| Balance, December 31, 2014            | \$ 66,469 |
| Capital funding applied to receivable | (5,028)   |
| Balance, December 31, 2015            | 61,441    |
| Capital funding increase              | 5,021     |
| Capital funding applied to receivable | (6,289)   |
| Balance, December 31, 2016            | \$ 60,173 |
| Current                               | \$ 5,663  |
| Non-current                           | 54,510    |
|                                       | \$ 60,173 |

The capital funding receivable of \$60,173 (2015 - \$61,441) 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 9.2 years. During 2016, Chartwell received an increase in capital funding on three long-term care properties in Ontario retroactive to the date of completion. Additional capital funding was recorded as a reduction in PP&E cost. 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.

## 7. *Other assets:*

|                               | 2016      | 2015      |
|-------------------------------|-----------|-----------|
| Prepaid expenses and deposits | \$ 10,963 | \$ 11,130 |
| Restricted cash               | 2,173     | 2,199     |
| Other assets                  | 5,213     | 7,342     |
|                               | \$ 18,349 | \$ 20,671 |
| Current                       | \$ 14,900 | \$ 16,938 |
| Non-current                   | 3,449     | 3,733     |
|                               | \$ 18,349 | \$ 20,671 |

Other assets include receivables of \$1,245 recorded at their fair value, related to income guarantees provided by vendors of certain acquired properties (2015 - \$3,264). Income guarantees are



considered Level 3 in the fair value hierarchy. For the year ended December 31, 2016, \$2,803 (2015 - \$1,216) of income guarantees were collected.

## 8. *Loans receivable:*

|                                | 2016             | 2015             |
|--------------------------------|------------------|------------------|
| Vendor take back ("VTB") loans | \$ 1,457         | \$ 7,483         |
| Mezzanine and other loans      | 9,071            | 8,281            |
|                                | <b>\$ 10,528</b> | <b>\$ 15,764</b> |

On June 23, 2016, VTB loans totalling \$6,000 were repaid.

On July 5, 2016, Chartwell replaced one land loan in the amount of \$1,900 with a mezzanine loan of \$2,690 for development of a 163-suite addition to its retirement residence in Quebec.

Mezzanine and other loans are due from Batimo, mature between October 2019 and July 2020, 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.

## 9. *Joint arrangements:*

As at December 31, 2016, the following are Chartwell's joint arrangements:

| Joint arrangements                          | Number of properties | Location | Chartwell ownership | Consolidation type           |
|---|----------------------|----------|---------------------|------------------------------|
| Chartwell-Welltower Landlord <sup>(1)</sup> | 38                   | Canada   | 50%                 | Joint operation              |
| Chartwell-Welltower Operator <sup>(1)</sup> | 38                   | Canada   | 50%                 | Joint venture <sup>(2)</sup> |
| Batimo <sup>(4)</sup>                       | 4                    | Canada   | 85%                 | Joint operation              |
| Oakville                                    | 1                    | Canada   | 50%                 | Joint venture <sup>(2)</sup> |
| Constantia                                  | 1                    | Canada   | 50%                 | Joint venture <sup>(2)</sup> |
| Riverside                                   | 1                    | Canada   | 50%                 | Joint operation              |
| Churchill                                   | 1                    | Canada   | 50%                 | Joint operation              |
| Oak Ridges <sup>(3)</sup>                   | 1                    | Canada   | <sup>(3)</sup>      | Joint venture <sup>(2)</sup> |
| Clair Hills <sup>(3)</sup>                  | 1                    | Canada   | <sup>(3)</sup>      | Joint venture <sup>(2)</sup> |
| The Sumach                                  | 1                    | Canada   | 45%                 | Joint operation              |

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

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

<sup>(3)</sup> Chartwell owns 100% of Class C Units in these limited partnerships (note 3), 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.

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.

- (a) At December 31, 2016, 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:

|                          | 2016              | 2015              |
|--------------------------|-------------------|-------------------|
| Current assets           | \$ 27,429         | \$ 6,597          |
| Non-current assets       | 423,564           | 431,826           |
| <b>Total assets</b>      | <b>\$ 450,993</b> | <b>\$ 438,423</b> |
| Current liabilities      | \$ 53,162         | \$ 63,742         |
| Non-current liabilities  | 252,826           | 224,509           |
| <b>Total liabilities</b> | <b>\$ 305,988</b> | <b>\$ 288,251</b> |
| Total revenue            | \$ 48,317         | \$ 48,147         |
| Total expenses           | \$ 35,783         | \$ 40,535         |

In 2016, Chartwell entered into a new joint arrangement with Welltower Inc. ("Welltower") and Daniels Corporation ("Daniels") to develop The Sumach by Chartwell, a 332-suite apartment building in Toronto, Ontario. Welltower and Chartwell each owns a 45% interest and Daniels owns a 10% interest.

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

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

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Distributions received from joint ventures | \$ 8,915          | \$ 60,251         |
| Contributions to joint ventures            | 1,053             | 77,591            |
|  |                   |                   |
|  | 2016              | 2015              |
| Current assets                             | \$ 16,887         | \$ 13,542         |
| Non-current assets                         | 100,427           | 105,948           |
| <b>Total assets</b>                        | <b>\$ 117,314</b> | <b>\$ 119,490</b> |
| Current liabilities                        | \$ 9,010          | \$ 20,269         |
| Non-current liabilities                    | 77,482            | 65,228            |
| <b>Total liabilities</b>                   | <b>\$ 86,492</b>  | <b>\$ 85,497</b>  |
| Net investment in joint ventures           | \$ 30,822         | \$ 33,993         |

Included in current assets is \$8,238 (2015 - \$5,852) in cash and cash equivalents.

|   | 2016       | 2015       |
|---|------------|------------|
| Revenue   | \$ 120,353 | \$ 106,213 |
| Expenses  | (115,662)  | (106,399)  |
| Chartwell's share of net income (loss)<br>from joint ventures | \$ 4,691   | \$ (186)   |

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 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 and lease revenue, as applicable. As of December 31, 2016, \$787 (2015 - \$244) of Chartwell's accounts receivable and \$4,642 (2015 - \$4,625) of Chartwell's accounts payable relate to its investment in joint ventures. For the year ended December 31, 2016, \$6,338 (2015 - \$5,555) of Chartwell's management fees related to its investment in joint ventures.

Chartwell and Welltower (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are obligated for the related mortgages for a portfolio of 38 properties, which under IFRS 11, Joint Arrangements ("IFRS 11"), are accounted for as joint operations. Chartwell's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Chartwell-Welltower operator"), which under IFRS 11 are accounted for as joint ventures using the equity method.

Chartwell-Welltower operators have leased the real estate from the landlords under their respective lease agreements. 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, \$33,803 for the year ended December 31, 2016 (2015 - \$33,000), is reported as lease revenue and is included in lease revenue from joint ventures. Chartwell-Welltower operator lease expense is included in the share of net income (loss) from joint ventures in the consolidated statements of comprehensive income.

## 10. Secured debt:

### (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 17.

The mortgages payable as at December 31, 2016 are as follows:

|            | Regular<br>principal<br>payments | Principal due<br>on maturity | Total<br>debt | % of<br>total<br>debt |
|------------|----------------------------------|------------------------------|---------------|-----------------------|
| 2017       | \$ 52,639                        | \$ 87,233                    | \$ 139,872    | 9                     |
| 2018       | 52,489                           | 133,498                      | 185,987       | 11                    |
| 2019       | 51,410                           | 223,726                      | 275,136       | 17                    |
| 2020       | 50,893                           | 152,398                      | 203,291       | 12                    |
| 2021       | 48,843                           | 75,687                       | 124,530       | 8                     |
| 2022       | 45,513                           | 66,075                       | 111,588       | 7                     |
| 2023       | 41,401                           | 56,326                       | 97,727        | 6                     |
| 2024       | 30,786                           | 157,445                      | 188,231       | 11                    |
| 2025       | 24,349                           | 44,335                       | 68,684        | 4                     |
| 2026       | 22,488                           | 36,391                       | 58,879        | 4                     |
| 2027       | 20,503                           | —                            | 20,503        | 1                     |
| 2028       | 27,610                           | 18,925                       | 46,535        | 3                     |
| 2029       | 18,580                           | —                            | 18,580        | 1                     |
| 2030       | 17,225                           | —                            | 17,225        | 1                     |
| Thereafter | 65,687                           | 22,253                       | 87,940        | 5                     |
|            | \$ 570,416                       | \$ 1,074,292                 | 1,644,708     | 100                   |

Mark-to-market  
adjustments  
on acquisition  
Financing costs

19,907  
(22,843)

\$ 1,641,772

Current  
Non-current

\$ 143,695  
1,498,077

\$ 1,641,772

|                                | 2016   | 2015   |
|--------------------------------|--|--|
| Mortgages at fixed rates:      |  |  |
| Mortgages (principal)          | \$ 1,612,233   | \$ 1,365,860   |
| Interest rates                 | 1.79 to 8.51%  | 1.79 to 8.51%  |
| Weighted average interest rate | 3.91%  | 4.30%  |
| Mortgages at variable rates:   |  |  |
| Mortgages (principal)          | \$ 32,475  | \$ 166,056   |
| Interest rates                 | Bankers' acceptance<br>plus 1.50% to<br>prime plus 2.00% | Bankers' acceptance<br>plus 1.50% to<br>prime plus 2.00% |
| Weighted average interest rate | 2.89%  | 3.01%  |
| Blended weighted average rate  | 3.89%  | 4.16%  |

Mortgages totalling \$287,305 (2015 - \$124,978) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2018 and 2021. The swaps have a fair value liability of \$135 (2015 - \$803) included in accounts payable and other accrued liabilities and fair value asset of \$1,624 (2015 - nil) included in trade and other receivables.

(b) Credit Facilities:

- (i) Chartwell has a revolving Credit Facility with a syndicate of Canadian banks. The amounts outstanding on the Credit Facility bear interest ranging from the bank's prime rate plus 0.65% to bank's prime rate plus 0.80% or banker's acceptance rate plus 1.65% to banker's acceptance rate plus 1.80%, depending on the ratio of Chartwell's debt to adjusted gross book value of assets ("D/GBV"), as defined in the credit agreement. The Credit Facility is secured by first-ranked and second-ranked charges on specific properties and includes minimum equity requirements and covenants, which include limitations on the amount of cash distributions that can be paid to unitholders. The Credit Facility matures on June 1, 2018. At December 31, 2016, the maximum available borrowing capacity under the Credit Facility was \$200,000 (2015 - \$199,134), based on the security provided. Of this capacity, as at December 31, 2016, \$4,241 (2015 - \$4,002) has been allocated to support various letters of credit issued by Chartwell and \$130,000 (2015 - \$32,000) was drawn under the Credit Facility.
- (ii) On June 17, 2016, Chartwell arranged an additional Credit Facility with a Canadian chartered bank maturing on June 1, 2018. The amounts outstanding on this Credit Facility bear interest ranging from bank's prime rate plus 0.60% to bank's prime rate plus 0.75% or banker's acceptance rate plus 1.60% to banker's acceptance rate plus 1.75% depending on the ratio of Chartwell's D/GBV, as defined in the credit agreement. Additional terms include minimum equity requirements and covenants requiring limitations on the amount of cash distributions that can be paid to unitholders. The credit facility is secured by second-ranked charges on specific properties. At December 31, 2016, the maximum available borrowing capacity under the Credit Facility was \$50,000 based on the security provided. As at December 31, 2016, \$42,000 was drawn under the Credit Facility.

## **11. Convertible debentures:**

On April 12, 2016, Chartwell issued a notice to the holders of the 5.7% convertible debentures that it would redeem such debentures on May 16, 2016. The outstanding principal amount of convertible debentures on the notice date was \$131,907. Pursuant to the terms of 5.7% convertible debentures the holders had the right to convert their 5.7% convertible debentures into Trust Units, at a conversion price of \$11.00 per Trust Unit, being a rate of approximately 90.9091 units per \$1,000 principal amount of 5.7% convertible debentures.

Chartwell elected to satisfy its redemption obligations for any unconverted debentures by issuing Trust Units at 95% of the current market price of the Trust Unit on the redemption date, as provided for in the Trust Indenture.

Following Chartwell's notice of redemption to the holders of the 5.7% convertible debentures, on April 12, 2016, pursuant to the terms of the debentures, holders of \$125,534 principal amount of debentures exercised the conversion option, resulting in the issuance of 11,412,171 units, at a conversion price of \$11.00 per Trust Unit.

On May 16, 2016, the remaining \$6,373 of the unconverted 5.7% convertible debentures were redeemed through the issuance of 477,975 Trust Units at a conversion price of \$13.33 per Trust Unit.

## 12. Accounts payable and other liabilities:

|  | Note  | 2016              | 2015              |
|--|-------|-------------------|-------------------|
| Accounts payable and accrued liabilities |       | \$ 89,099         | \$ 88,679         |
| Resident deposits                        |       | 2,596             | 2,846             |
| Deferred revenue                         |       | 115               | 528               |
| Deferred Trust Units ("DTU")             | (a)   | 13,620            | 10,501            |
| Restricted Trust Units ("RTU")           | (b)   | 4,935             | 3,118             |
| EUPP option component                    | 15(b) | 11,505            | 8,364             |
|  |       | <b>\$ 121,870</b> | <b>\$ 114,036</b> |

### (a) Deferred Unit Plan:

Chartwell provides a Deferred Unit 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 Deferred Trust Units. 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 units, as defined in the plan, on the award date. The Deferred Trust Units earn additional Deferred Trust Units related to distributions that would otherwise have been paid if Trust Units, as opposed to Deferred Trust Units, had been issued on the date of the grant. The number of Deferred 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. Deferred Trust Units cannot be distributed to the directors until after they retire from the board.

As described in note 2(i)(ii), this plan is considered a cash-settled plan with the value of issued units recorded as a liability on the consolidated balance sheets. Deferred Trust Unit 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 to equity after retirement of the director. The market ask price of Trust Units as at December 31, 2016 was \$14.67 (2015 - \$12.76).

The following table summarizes the Deferred Trust Unit activity:

|  | Units<br>outstanding | Amount    |
|--|----------------------|-----------|
| Balance, December 31, 2014             | 692,049              | \$ 8,269  |
| Units granted                          | 97,203               | 1,179     |
| Change in fair value and distributions | 33,914               | 1,053     |
| Balance, December 31, 2015             | 823,166              | 10,501    |
| Units granted                          | 71,573               | 1,068     |
| Change in fair value and distributions | 33,879               | 2,051     |
| Balance, December 31, 2016             | 928,618              | \$ 13,620 |

The non-cash compensation expense attributable to DTUs granted of \$1,068 for the year ended December 31, 2016 (2015 - \$1,179) is included in general, administrative and trust expenses.

(b) Restricted Unit Plan ("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 Restricted Trust Units 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, 2016, 207,943 notional Trust Units were granted (2015 - 198,894), 29,295 notional Trust units were cancelled (2015 - 20,583), 22,214 notional Trust units were issued in regard to distributions (2015 - 19,897), and 138,090 notional Trust units vested and were paid out (2015 - 34,252). At December 31, 2016, 496,546 notional Trust Units remained outstanding (2015 - 433,774).

The compensation expense attributable to the RTU Plan of \$3,734 for the year ended December 31, 2016 (2015 - \$2,062) is included in general, administrative and trust expenses.

### **13. Discontinued operations:**

On June 30, 2015, Chartwell completed the sale of 100% of its shares in CSH Master Care USA Inc. (the "U.S. Subsidiary"), through a series of transactions, to a newly formed joint venture between HCP, Inc. and Brookdale Senior Living Inc. ("Brookdale").

The U.S. Subsidiary wholly owned Chartwell's entire U.S. portfolio, comprising 5,022 suites in 35 communities (the "U.S. Portfolio"). Brookdale was the manager of the U.S. Portfolio.

The gross sale price was U.S. \$847,449 (\$1,058,464). The related debt of U.S. \$477,939 (\$596,946) was settled on sale.



The following is a summary of the results of discontinued operations:

|   | 2016     | 2015       |
|---|----------|------------|
| Resident revenue  | \$ —     | \$ 114,110 |
| Direct operating costs  | —        | (80,819)   |
| Finance costs   | —        | (16,939)   |
| Other income (expense)  | 1,721    | (1,371)    |
| Depreciation of PP&E  | —        | (13,870)   |
| Amortization of intangible assets   | —        | (255)      |
| Change in fair values of financial instruments,<br>foreign exchange and adjustments on<br>mortgages | —        | (26,827)   |
| Gain on disposal of discontinued operations   | —        | 432,241    |
| Income before income taxes  | 1,721    | 406,270    |
| Current income tax benefit (expense) (note 23)  | 3,785    | (56,176)   |
| Net income from discontinued operations   | \$ 5,506 | \$ 350,094 |
| Cash flows from discontinued operations:  |          |            |
| Net cash provided by operating activities   | \$ —     | \$ 14,804  |
| Net cash used in financing activities   | —        | (5,213)    |
| Net cash provided by investing activities   | —        | 427,045    |
| Foreign exchange loss on cash   | —        | (7)        |
| Effect on cash flows  | \$ —     | \$ 436,629 |

During the year ended December 31, 2016, Chartwell agreed to settle certain liabilities for which estimates were made on closing of the sale of U.S. portfolio. As the agreed upon settlement amounts were lower than previously estimated, Chartwell recorded other income of \$1,721.

#### 14. 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.

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 comprehensive income.

|  | Units outstanding | Amount    |
|--|-------------------|-----------|
| Balance, December 31, 2014                 | 1,641,323         | \$ 19,614 |
| Issuance of Class B Units (note 3)         | 1,187,170         | 15,136    |
| Exchange of Class B Units into Trust Units | (1,187,170)       | (14,590)  |
| Change in fair value                       | —                 | 783       |
| Balance, December 31, 2015                 | 1,641,323         | 20,943    |
| Exchange of Class B Units into Trust Units | (14,150)          | (202)     |
| Change in fair value                       | —                 | 3,130     |
| Balance, December 31, 2016                 | 1,627,173         | \$ 23,871 |

## 15. 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.

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<br>Trust Units | Amount       |
|---|--------------------------|--------------|
| Balance, December 31, 2014                              | 173,485,992              | \$ 1,743,786 |
| Trust Units issued under DRIP                           | 1,595,951                | 18,574       |
| Trust Units issued on conversion of debt                | 13,542                   | 149          |
| Trust Units issued in exchange of Class B Units         | 1,187,170                | 14,590       |
| Trust Units released on settlement of EUPP receivable   | 118,546                  | 1,397        |
| Balance, December 31, 2015                              | 176,401,201              | 1,778,496    |
| Trust Units issued under DRIP                           | 1,418,778                | 19,725       |
| Trust Units issued on conversion and redemption of debt | 12,157,779               | 173,194      |
| Trust Units issued in exchange of Class B Units         | 14,150                   | 202          |
| Trust Units released on settlement of EUPP receivable   | 103,566                  | 1,882        |
| Balance, December 31, 2016                              | 190,095,474              | \$ 1,973,499 |

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.

(b) EUPP:

An aggregate of 5,900,890 Trust Units are reserved for issuance pursuant to the EUPP, of which 2,880,045 were available to be issued at December 31, 2016.

The following table summarizes Trust Units issued under the EUPP:

|   | Number of<br>Trust Units<br>issued under<br>EUPP | Amount    |
|---|--|-----------|
| Balance, December 31, 2014                            | 1,640,764  | \$ 17,873 |
| Trust Units issued under EUPP                         | 71,734   | 856       |
| Trust Units surrendered for cancellation under EUPP   | (40,318)   | (443)     |
| Trust Units released on settlement of EUPP receivable | (118,546)  | (1,397)   |
| Balance, December 31, 2015                            | 1,553,634  | 16,889    |
| Trust Units issued under EUPP                         | 79,454   | 1,072     |
| Trust Units surrendered for cancellation under EUPP   | (14,134)   | (151)     |
| Trust Units released on settlement of EUPP receivable | (103,566)  | (1,222)   |
| Balance, December 31, 2016                            | 1,515,388  | \$ 16,588 |

The non-cash compensation expense attributable to the EUPP of \$303 for the year ended December 31, 2016 (2015 - \$324) 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.

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

|                     | 2016            | 2015            |
|---------------------|-----------------|-----------------|
| Expected volatility | 18.42% - 23.42% | 15.32% - 20.32% |
| Risk-free rate      | 1.76% - 2.32%   | 1.78% - 2.41%   |
| Distribution yield  | 4.28% - 4.75%   | 5.10% - 5.94%   |

(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%.

## 16. Segmented information:

Chartwell monitors and operates its Canadian Retirement and Canadian Long-Term Care properties separately. The Canadian Retirement Operations segment includes 155 communities that Chartwell owns and operates in Canada. The retirement communities provide services to age-qualified

residents at rates set by Chartwell based on the services provided and market conditions. The Canadian Long-Term Care Operations segment represents the 24 long-term care communities in Ontario. Admission and funding for the long-term care communities is overseen by local government agencies in each province. The accounting policies of each of the segments are the same as those for Chartwell. These segments include Chartwell's proportionate share of its joint ventures. The "Reconciliation" column shows the adjustments to account for these joint ventures using the equity method, as applied in these 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.

| 2016   | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations (note 13) | Segment Total | Other    | Subtotal   | Reconciliation | Total           |
|--|--------------------------------|------------------------------------|------------------------------------|---------------|----------|------------|----------------|-----------------|
| Continuing Operations  |                                |                                    |                                    |               |          |            |                |                 |
| Revenue:   |                                |                                    |                                    |               |          |            |                |                 |
| Resident Management and other fees                                       | \$ 610,962                     | \$ 223,771                         | \$ —                               | \$ 834,733    | \$ —     | \$ 834,733 | \$ (120,353)   | \$ 714,380      |
| Lease revenue from joint ventures  | —                              | —                                  | —                                  | —             | 8,777    | 8,777      | —              | 8,777           |
| Loan interest  | —                              | —                                  | —                                  | —             | —        | —          | 33,803         | 33,803          |
|  | —                              | —                                  | —                                  | —             | 1,252    | 1,252      | —              | 1,252           |
|  | 610,962                        | 223,771                            | —                                  | 834,733       | 10,029   | 844,762    | (86,550)       | 758,212         |
| Expenses:  |                                |                                    |                                    |               |          |            |                |                 |
| Direct property operating  | 373,254                        | 196,142                            | —                                  | 569,396       | —        | 569,396    | (74,169)       | 495,227         |
| General, administrative and trust  | —                              | —                                  | —                                  | —             | 33,838   | 33,838     | —              | 33,838          |
|  | 373,254                        | 196,142                            | —                                  | 569,396       | 33,838   | 603,234    | (74,169)       | 529,065         |
| Income (loss) before the undernoted <sup>(1)</sup>                       | 237,708                        | 27,629                             | —                                  | 265,337       | (23,809) | 241,528    | (12,381)       | 229,147         |
| Finance costs:   |                                |                                    |                                    |               |          |            |                |                 |
| Contractual interest   |                                |                                    |                                    |               |          |            |                | (70,121)        |
| Other  |                                |                                    |                                    |               |          |            |                | 1,343           |
| Other income (expense):  |                                |                                    |                                    |               |          |            |                |                 |
| Interest and other income  |                                |                                    |                                    |               |          |            |                | 3,175           |
| Other  |                                |                                    |                                    |               |          |            |                | (5,160)         |
| Depreciation and amortization  |                                |                                    |                                    |               |          |            |                | (146,755)       |
| Share of net income from joint ventures                                  |                                |                                    |                                    |               |          |            |                | 4,691           |
| Change in fair values of financial instruments and foreign exchange loss |                                |                                    |                                    |               |          |            |                | (17,003)        |
|  |                                |                                    |                                    |               |          |            |                | (229,830)       |
| Loss before income taxes   |                                |                                    |                                    |               |          |            |                | (683)           |
| Income tax expense   |                                |                                    |                                    |               |          |            |                | (27)            |
| Loss from continuing operations  |                                |                                    |                                    |               |          |            |                | (710)           |
| Net income from discontinued operations, net of income taxes             |                                |                                    |                                    |               |          |            |                | 5,506           |
| <b>Net income</b>  |                                |                                    |                                    |               |          |            |                | <b>\$ 4,796</b> |
| Expenditures for non-current assets:                                     |                                |                                    |                                    |               |          |            |                |                 |
| Acquisition of properties  | \$ 230,095                     | \$ —                               | \$ —                               | \$ 230,095    | \$ —     | \$ 230,095 | \$ —           | \$ 230,095      |
| Capital additions  | 112,481                        | 8,242                              | —                                  | 120,723       | 3,220    | 123,943    | (498)          | 123,445         |

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

| 2015   | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations (note 13) | Segment Total | Other    | Subtotal   | Reconciliation | Total      |
|--|--------------------------------|------------------------------------|------------------------------------|---------------|----------|------------|----------------|------------|
| Continuing Operations  |                                |                                    |                                    |               |          |            |                |            |
| Revenue:   |                                |                                    |                                    |               |          |            |                |            |
| Resident Management and other fees   | \$ 530,520                     | \$ 219,607                         | \$ —                               | \$ 750,127    | \$ —     | \$ 750,127 | \$ (106,213)   | \$ 643,914 |
| Lease revenue from joint ventures  | —                              | —                                  | —                                  | —             | 7,815    | 7,815      | —              | 7,815      |
| Loan interest  | —                              | —                                  | —                                  | —             | —        | —          | 33,000         | 33,000     |
|  | —                              | —                                  | —                                  | —             | 1,142    | 1,142      | —              | 1,142      |
|  | 530,520                        | 219,607                            | —                                  | 750,127       | 8,957    | 759,084    | (73,213)       | 685,871    |
| Expenses:  |                                |                                    |                                    |               |          |            |                |            |
| Direct property operating  | 338,101                        | 191,913                            | —                                  | 530,014       | —        | 530,014    | (66,479)       | 463,535    |
| General, administrative and trust  | —                              | —                                  | —                                  | —             | 30,771   | 30,771     | —              | 30,771     |
|  | 338,101                        | 191,913                            | —                                  | 530,014       | 30,771   | 560,785    | (66,479)       | 494,306    |
| Income (loss) before the undernoted <sup>(1)</sup>                         | 192,419                        | 27,694                             | —                                  | 220,113       | (21,814) | 198,299    | (6,734)        | 191,565    |
| Finance costs:   |                                |                                    |                                    |               |          |            |                |            |
| Contractual interest   |                                |                                    |                                    |               |          |            |                | (71,554)   |
| Other  |                                |                                    |                                    |               |          |            |                | (523)      |
| Other income (expense):  |                                |                                    |                                    |               |          |            |                |            |
| Interest and other income  |                                |                                    |                                    |               |          |            |                | 3,486      |
| Other  |                                |                                    |                                    |               |          |            |                | (817)      |
| Depreciation and amortization  |                                |                                    |                                    |               |          |            |                | (114,417)  |
| Share of net loss from joint ventures                                      |                                |                                    |                                    |               |          |            |                | (186)      |
| Change in fair values of financial instruments and foreign exchange losses |                                |                                    |                                    |               |          |            |                | (2,291)    |
|  |                                |                                    |                                    |               |          |            |                | (186,302)  |
| Income before income taxes   |                                |                                    |                                    |               |          |            |                | 5,263      |
| Income tax benefit   |                                |                                    |                                    |               |          |            |                | 6,876      |
| Income from continuing operations  |                                |                                    |                                    |               |          |            |                | 12,139     |
| Net income from discontinued operations, net of income taxes               |                                |                                    |                                    |               |          |            |                | 350,094    |
| Net income   |                                |                                    |                                    |               |          |            |                | \$ 362,233 |
| Expenditures for non-current assets:                                       |                                |                                    |                                    |               |          |            |                |            |
| Acquisition of properties  | \$ 515,916                     | \$ —                               | \$ —                               | \$ 515,916    | \$ —     | \$ 515,916 | \$ 40,075      | \$ 555,991 |
| Capital additions  | 63,578                         | 7,589                              | 11,417                             | 82,584        | 3,840    | 86,424     | (1,786)        | 84,638     |

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

| 2016              | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other      | Subtotal     | Reconciliation | Total        |
|-------------------|--------------------------------|------------------------------------|--------------------------|---------------|------------|--------------|----------------|--------------|
| Total assets      | \$ 2,542,070                   | \$ 265,193                         | \$ –                     | \$ 2,807,263  | \$ 71,346  | \$ 2,878,609 | \$ (81,902)    | \$ 2,796,707 |
| Total liabilities | \$ 1,607,945                   | \$ 199,333                         | \$ –                     | \$ 1,807,278  | \$ 246,348 | \$ 2,053,626 | \$ (81,902)    | \$ 1,971,724 |

| 2015              | Canadian Retirement Operations | Canadian Long-Term Care Operations | United States Operations | Segment Total | Other      | Subtotal     | Reconciliation | Total        |
|-------------------|--------------------------------|------------------------------------|--------------------------|---------------|------------|--------------|----------------|--------------|
| Total assets      | \$ 2,361,843                   | \$ 277,516                         | \$ –                     | \$ 2,639,359  | \$ 41,558  | \$ 2,680,917 | \$ (81,528)    | \$ 2,599,389 |
| Total liabilities | \$ 1,480,010                   | \$ 210,169                         | \$ –                     | \$ 1,690,179  | \$ 261,218 | \$ 1,951,397 | \$ (81,528)    | \$ 1,869,869 |

## 17. Financial instruments and financial risk management:

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

The carrying amounts and fair values of financial instruments, not otherwise disclosed in these consolidated financial statements, as shown in the consolidated balance sheets, are shown in the table below. The table below excludes 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.

|   | 2016           |            | 2015           |            |
|---|----------------|------------|----------------|------------|
|   | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets:                                 |                |            |                |            |
| Financial assets recorded at amortized cost:      |                |            |                |            |
| Loans receivable                                  | \$ 10,528      | \$ 10,528  | \$ 15,764      | \$ 15,764  |
| Financial liabilities:                            |                |            |                |            |
| Financial liabilities recorded at amortized cost: |                |            |                |            |
| Mortgages payable                                 | 1,641,772      | 1,688,374  | 1,531,358      | 1,610,416  |
| Credit Facilities                                 | 172,000        | 172,000    | 32,000         | 32,000     |

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 and require estimation, and 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 flows using the rates currently prevailing for similar instruments of similar maturities. At December 31, 2016, the mortgages payable were discounted using rates between 1.89% and 4.56% (2015 - 1.63% and 4.30%). 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 loan receivables and Credit Facilities approximates their carrying value, and are considered Level 2 in the fair value hierarchy as inputs are observable directly or indirectly.

(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.

There have been no significant changes to Chartwell's risk management policies and strategies since December 31, 2015.

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 or personal 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.

Accounts receivable from residents are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a resident will default. Chartwell records an allowance for doubtful accounts when accounts are determined to be uncollectible. At December 31, 2016, outstanding residents receivables were \$1,326 (2015 - \$1,311), net of an impairment reserve of \$960 (2015 - \$866).



(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.

The above liquidity needs are funded from cash flows from operating the property portfolio, through sourcing and utilization of property specific mortgages and Credit Facilities. The particular features and quality of the underlying assets and the debt market parameters existing at the time of financing may impact the ability for financing an individual property or amounts available under Credit Facilities. To provide for additional liquidity, Chartwell may also issue Trust Units and unsecured debentures, subject to market conditions. At December 31, 2016, Chartwell had \$30,050 in cash and \$73,759 available and undrawn on the Credit Facilities (note 10(b)).

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, 2016, Chartwell received \$192,238 (2015 - \$193,547) in funding in respect of these licenses, which has been recorded as resident revenue, other income and capital funding receivable, as applicable.

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 our largest CMHC insured lenders, and contains certain financial and operating covenants.

There is also a risk that the Credit Facilities will not be renewed on terms and conditions acceptable to Chartwell or on any terms at all.

Chartwell's major contractual obligations as at December 31, 2016 are detailed in note 24.

(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 30 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.

At December 31, 2016, Chartwell's interest-bearing financial instruments were as follows:

|                                     | Carrying amount |              |
|-------------------------------------|-----------------|--------------|
|                                     | 2016            | 2015         |
| Fixed-rate financial liabilities    | \$ 1,612,233    | \$ 1,500,711 |
| Variable-rate financial liabilities | \$ 204,475      | \$ 198,057   |

A change in interest rates at December 31, 2016 would not affect net income with respect to the fixed-rate instruments. Therefore, no sensitivity analysis is provided for the fixed-rate instruments.

An increase/decrease of 100-basis-points in interest rates at December 31, 2016 for the variable-rate financial instruments would have decreased/increased the income for the year by \$2,045 (on a pre-tax basis).

## 18. *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 certain financial and non-financial covenants included in loan 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 and borrowings under its Credit Facilities.

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 sheets (or if approved by a majority of the Independent Directors of Master LP at any time, the appraised value thereof), adjusted for Chartwell's line-by-line share of its joint ventures, plus the amount of accumulated depreciation and amortization shown thereon or in the notes thereto less the carrying value of any deferred consideration on business combinations in the notes thereto, 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 the related costs in respect of completed property acquisitions that were expensed in the period incurred.

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

The following are the Indebtedness ratios at December 31, 2016 and 2015:

|                                  | 2016  | 2015  | Increase<br>(decrease) |
|----------------------------------|-------|-------|------------------------|
| Excluding convertible debentures | 48.9% | 45.9% | 3.0%                   |
| Including convertible debentures | 48.9% | 49.7% | (0.8)%                 |

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. These covenants include: maintaining minimum equity, required debt service coverage ratios, Indebtedness ratios, minimum liquidity, intended property use, limitations on the amount of cash distributions that can be paid to unitholders and other covenants. There have been no changes in Chartwell's capital management strategy during the year.

## 19. *Personnel expenses:*

The analysis of employee benefits expense for the years ended December 31, 2016 and 2015, included in the consolidated statements of comprehensive income under direct operating expenses and general, administrative and trust expenses, is as follows:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| Salaries and wages                                    | \$ 359,032        | \$ 336,914        |
| Post-employment benefits (defined contribution plans) | 5,404             | 4,960             |
| Unit-based compensation                               | 5,104             | 3,566             |
|   | <u>\$ 369,540</u> | <u>\$ 345,440</u> |

## 20. Other expense (income):

|  | 2016     | 2015       |
|--|----------|------------|
| Property lease expense   | \$ 395   | \$ 447     |
| Impairment of PP&E, net of reversals (note 4)                                      | 6,390    | 3,755      |
| Transaction costs arising on acquisitions and dispositions                         | 5,400    | 12,034     |
| Other expense  | 12,185   | 16,236     |
| Gain on disposal of assets (a)   | (1,838)  | (4,967)    |
| Gain recorded on remeasurement of previously held interest on acquisition (note 3) | (5,187)  | (10,452)   |
| Interest and other income  | (3,175)  | (3,486)    |
| Other income   | (10,200) | (18,905)   |
| Other expense (income)   | \$ 1,985 | \$ (2,669) |

### (a) Gain on disposal of assets:

On June 30, 2016, Chartwell sold three non-core properties in Quebec, included in the Canadian Retirement Segment. On closing, the purchaser assumed mortgages encumbering these properties in amount of \$17,872, bearing interest of 3.99%. Under the terms of the transaction, an amount of \$1,721 will be made available to the purchaser upon satisfaction of certain conditions subsequent to closing, of which \$914 has been released with the remainder included in accounts payable and other liabilities in the consolidated balance sheets. For the year ended December 31, 2016, Chartwell recorded a gain on sale of these assets of \$686.

For the year ended December 31, 2016, Chartwell completed other disposals of assets and recorded a gain of \$1,152.

On June 2, 2015, Chartwell sold a non-core property in Quebec, included in the Canadian Retirement Segment. The sale price was \$8,000 and was settled through the purchaser's assumption of a mortgage in amount of \$5,252 and a \$1,500 vendor take-back mortgage provided by Chartwell with the balance of the purchase price paid in cash. Chartwell recorded a gain on sale of this asset of \$3,321.

For the year ended December 31, 2015, Chartwell completed other disposals of assets and recorded a gain of \$1,646.

## 21. Finance costs:

|   | 2016      | 2015      |
|---|-----------|-----------|
| Contractual interest expense on mortgages   | \$ 63,598 | \$ 61,127 |
| Interest expense on convertible debentures  | 2,611     | 7,690     |
| Credit Facilities and other interest expense  | 3,912     | 2,737     |
|   | 70,121    | 71,554    |
| Interest capitalized to properties under development  | (1,085)   | (240)     |
| Amortization of financing costs and mark-to-market<br>adjustment on assumption of mortgages payable | (1,162)   | (193)     |
| Distributions on Class B Units recorded<br>as interest expense                                      | 904       | 956       |
| Total finance costs   | \$ 68,778 | \$ 72,077 |

## 22. Changes in fair values of financial instruments and foreign exchange gains:

|  | 2016      | 2015      |
|--|-----------|-----------|
| Change in fair value of convertible debentures                               | \$ 11,441 | \$ 10,703 |
| Change in fair value of interest rate swaps                                  | (2,245)   | 669       |
| Foreign exchange gains   | (202)     | (10,675)  |
| Change in fair value of EUPP option component                                | 3,499     | 1,183     |
| Change in fair value of Class B Units  | 3,130     | 783       |
| Change in fair value of DTUs and distributions                               | 2,051     | 1,053     |
| Change in fair value of deferred purchase consideration                      | 113       | —         |
| Change in fair value of net operating income guarantees                      | (784)     | (1,425)   |
| Change in fair values of financial instruments<br>and foreign exchange gains | \$ 17,003 | \$ 2,291  |

## 23. Income taxes:

The income tax expense (benefit) - continuing operations 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% (2015 - 49.53%). On January 1, 2016, the effective tax rate increased as a result of enacted federal legislative changes. The differences for the years ended December 31 are as follows:

|  | 2016     | 2015       |
|--|----------|------------|
| Income (loss) before income taxes                    | \$ (683) | \$ 5,263   |
| Income tax expense (recovery) at Canadian tax rate   | \$ (366) | \$ 2,607   |
| Non-deductible expenses                              | 1,349    | 1,212      |
| Income (expense) not subject to tax                  | 279      | (6,296)    |
| Tax benefits not recognized                          | 946      | 9,838      |
| Recognition of previously unrecognized tax benefits  | (12,547) | (14,833)   |
| Change in enacted tax rate                           | —        | (5,074)    |
| Effect of tax rates in corporate subsidiary          | —        | (191)      |
| Non-deductible fair value changes                    | 10,770   | 6,797      |
| Other  | (404)    | (936)      |
| Income tax expense (benefit) - continuing operations | \$ 27    | \$ (6,876) |

Movement in deferred tax balances during the years are as follows:

|   | Balance,<br>January 1,<br>2016 | Recognized<br>in net<br>income<br>(loss) | Acquired in<br>business<br>combination | Balance,<br>December 31,<br>2016 |
|---|--------------------------------|--|--|----------------------------------|
| Property, plant and equipment           | \$ 56,504                      | \$ (11,665)                              | \$ (1,566)                             | \$ 43,273                        |
| Intangible assets                       | (13,479)                       | (467)                                    | —                                      | (13,946)                         |
| Losses available for carryforward       | 7,919                          | (552)                                    | —                                      | 7,367                            |
| Other                                   | (2,644)                        | 1,081                                    | 48                                     | (1,515)                          |
| Gross deferred tax asset (tax effected) | 48,300                         | (11,603)                                 | (1,518)                                | 35,179                           |
| Deferred tax assets not recognized      | (48,300)                       | 11,603                                   | —                                      | (36,697)                         |
| Net deferred tax liability              | \$ —                           | \$ —                                     | \$ (1,518)                             | \$ (1,518)                       |

|   | Balance,<br>January 1,<br>2015 | Recognized<br>in net<br>income<br>(loss) | Acquired in<br>business<br>combination | Balance,<br>December 31,<br>2015 |
|---|--------------------------------|--|--|----------------------------------|
| Property, plant and equipment           | \$ 71,304                      | \$ (6,584)                               | \$ (8,216)                             | \$ 56,504                        |
| Intangible assets                       | (13,982)                       | 503                                      | —                                      | (13,479)                         |
| Losses available for carryforward       | 9,978                          | (2,059)                                  | —                                      | 7,919                            |
| Other                                   | (13,987)                       | 11,343                                   | —                                      | (2,644)                          |
| Gross deferred tax asset (tax effected) | 53,313                         | 3,203                                    | (8,216)                                | 48,300                           |
| Deferred tax assets not recognized      | (53,313)                       | 5,013                                    | —                                      | (48,300)                         |
| Net deferred tax liability              | \$ —                           | \$ 8,216                                 | \$ (8,216)                             | \$ —                             |

As a result of the acquisition of a Canadian corporate subsidiary accounted for as a business combination during the year ended December 31, 2016, Chartwell recorded a deferred tax liability of \$1,518. The deferred tax liability is primarily attributable to the temporary differences between the accounting and tax basis of the PP&E held by the subsidiary.

Deferred tax assets have not been recognized for the following:

|  | 2016      | 2015      |
|--|-----------|-----------|
| Deductible temporary differences               | \$ 33,818 | \$ 60,107 |
| Non-capital and capital losses carried forward | 13,963    | 16,024    |
|  | \$ 47,781 | \$ 76,131 |

Chartwell has non-capital losses carried forward of \$13,130, which will expire between 2027 and 2029, and capital losses carried forward of \$6,188. 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 recorded a current tax recovery of \$3,785 in discontinued operations related to the prior year sale of its U.S. subsidiary (note 13). The current tax recovery is attributable to a change in estimate of the U.S. taxes payable on the disposition of the shares of the U.S. subsidiary.



## 24. Commitments and contingencies:

Chartwell's major contractual obligations as at December 31, 2016 are detailed in the following table:

|  | Note      | Total               | 2017              | 2018              | 2019              | 2020              | 2021              | Thereafter        |
|--|-----------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mortgages payable                      | 10(a)     | \$ 1,644,708        | \$ 139,872        | \$ 185,987        | \$ 275,136        | \$ 203,291        | \$ 124,530        | \$ 715,892        |
| Accounts payable and other liabilities | 12        | 121,870             | 121,870           | —                 | —                 | —                 | —                 | —                 |
| Distributions payable                  |           | 9,046               | 9,046             | —                 | —                 | —                 | —                 | —                 |
| Purchase obligations                   | 24(b)     | 106,490             | 53,042            | 53,448            | —                 | —                 | —                 | —                 |
| Credit Facilities                      | 10(b)     | 172,000             | —                 | 172,000           | —                 | —                 | —                 | —                 |
| Operating leases                       | 24(a)(i)  | 8,135               | 1,416             | 1,416             | 1,360             | 1,265             | 1,268             | 1,410             |
| Land leases                            | 24(a)(ii) | 14,085              | 395               | 395               | 395               | 395               | 395               | 12,110            |
| <b>Total contractual obligations</b>   |           | <b>\$ 2,076,334</b> | <b>\$ 325,641</b> | <b>\$ 413,246</b> | <b>\$ 276,891</b> | <b>\$ 204,951</b> | <b>\$ 126,193</b> | <b>\$ 729,412</b> |

(a) Lease obligations:

(i) Operating leases:

Chartwell has operating leases on office space in Canada that expire on various dates up to July 31, 2022. In aggregate, annual payments on these leases vary from \$1,129 to \$1,217 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 requires annual payments of \$126. A land lease on a property in Ontario expires on August 31, 2044, and requires annual payments of \$113 through to August 31, 2024, and \$136 for the remainder of the term. A land lease on another property in Ontario expires on May 31, 2048 with minimum lease payments of \$156, to be negotiated to market on May 31, 2018, and every 15-year anniversary thereafter.

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) Purchase obligations:

Chartwell has entered into various construction contracts related to its development projects. As at December 31, 2016, the remaining commitments under these contracts amounted to approximately \$106,490 (2015 - \$207). 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 Option is for a five-year period commencing on opening of the related facility. 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, 2016, there are six projects with 1,487 suites that are subject to this arrangement.

(c) Letters of credit:

As at December 31, 2016, Chartwell was contingently liable for letters of credit in the amount of \$4,241 (2015 - \$4,002).

(d) Guarantees:

As a result of the purchasers' assumption of certain mortgages on two properties sold in 2014 and one property sold in 2015 and three properties sold in 2016, Chartwell remains a guarantor of these mortgages. As at December 31, 2016, outstanding balance on these loans was \$25,257 (2015 - \$12,787). The purchasers have indemnified Chartwell with respect to these guarantees.

Chartwell, with its partners, has jointly and severally guaranteed loans on two properties, which are 50% owned by Chartwell, and three properties, which are 85% owned by Chartwell, to a maximum amount of \$73,638. As at December 31, 2016, outstanding balances on these loans was \$63,680 (\$19,928 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.

## 25. *Key management personnel compensation:*

The remuneration of key management personnel of Chartwell during the years ended December 31, 2016 and 2015 was as follows:

|                                       | 2016     | 2015     |
|---------------------------------------|----------|----------|
| Officers' and directors' compensation | \$ 4,587 | \$ 4,568 |
| Post-employment benefits              | 67       | 63       |
| Other long-term benefits              | 1,847    | 949      |
| Unit-based payments                   | 241      | 193      |

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.

## 26. *Expenses by nature:*

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Wages and benefits                                 | \$ 369,540        | \$ 345,440        |
| Food and supplies                                  | 53,062            | 48,937            |
| Realty taxes                                       | 26,132            | 24,017            |
| Utilities  | 29,049            | 26,314            |
| Other  | 51,282            | 49,598            |
|  | <b>\$ 529,065</b> | <b>\$ 494,306</b> |
| Included in the consolidated statements of income: |                   |                   |
| Direct property operating                          | \$ 495,227        | \$ 463,535        |
| General, administrative and trust                  | 33,838            | 30,771            |
|  | <b>\$ 529,065</b> | <b>\$ 494,306</b> |

## 27. *Subsequent events:*

On February 23, 2017, Chartwell announced a 2.5% increase in the monthly cash distributions from \$0.046818 per unit (\$0.561816 per unit on an annualized basis) to \$0.048 per unit (\$0.5760 per unit on an annualized basis) effective for the March 31, 2017 distribution payable on April 15, 2017.

On February 1, 2017, Chartwell acquired a 100% interest in a 107-suite residence located in Ontario. The purchase price before closing costs was \$22,000 and was settled in cash.

In January 9, 2017, Chartwell entered into a definitive agreement to acquire a 66-suite retirement residence in Ontario. The purchase price before closing costs is \$6,950 and will be settled in cash with closing expected in March 2017.

On January 19, 2017, Chartwell entered into a definitive agreement to sell a retirement residence located in Cote-Saint-Luc, Quebec. The transaction is expected to close May 3, 2017. The purchase price of \$23,500 is subject to rental support up to a maximum of \$2,500 for a period of two years, with the balance to be settled in cash. A Chartwell director is an officer and director of the purchaser of this property.

Subsequent to December 31, 2016, one VTB loan in the amount of \$1,457 was paid in full.

# Corporate and Unitholder Information

## TRUSTEES AND/OR DIRECTORS

**Michael Harris, Chair** <sup>(1)</sup>

**André Kuzmicki** <sup>(2)</sup>

**Huw Thomas** <sup>(3)</sup>

**Lise Bastarache** <sup>(2)</sup> <sup>(3)</sup>

**Sidney Robinson** <sup>(1)</sup> <sup>(3)</sup>

**Sharon Sallows** <sup>(1)</sup> <sup>(2)</sup>

**Brent Binions**

<sup>(1)</sup> Compensation, Governance and Nominating Committee

<sup>(2)</sup> Investment Committee

<sup>(3)</sup> Audit Committee

## OFFICERS AND SENIOR MANAGEMENT

**Brent Binions**

President and Chief Executive Officer

**Karen Sullivan**

Chief Operating Officer

**Vlad Volodarski**

Chief Financial Officer and

Chief Investment Officer

**Sheri Chateauvert**

Chief Administrative Officer

**Jonathan Boulakia**

Chief Legal Officer

## UNITHOLDER INFORMATION

Chartwell Retirement Residences  
100 Milverton Drive, Suite 700  
Mississauga, Ontario L5R 4H1  
Telephone: (905) 501-9219  
Toll free: (888) 584-2386  
Facsimile: (905) 501-0813  
chartwell.com

### Auditors

KPMG LLP,  
Toronto, Ontario

### Legal Counsel

Osler, Hoskin & Harcourt LLP,  
Toronto, Ontario

### Stock Exchange Listing

Toronto Stock Exchange (CSH.UN)

### Transfer Agent and Registrar

Computershare Investor Services  
Toronto, Ontario  
Telephone: (800) 564-6253  
Facsimile: (866) 249-7775  
Email: service@computershare.com

### Unitholder and Investor Contact

Vlad Volodarski, Chief Financial Officer  
and Chief Investment Officer  
Email: investorrelations@chartwell.com

### Annual Meeting of Unitholders

4:30pm ET - Wednesday, May 24, 2017  
St. Andrew's Club and Conference Centre  
150 King Street West, Toronto, Ontario

## DISTRIBUTION REINVESTMENT PLAN

Chartwell's Distribution Reinvestment Plan ("DRIP") allows unitholders to use their monthly cash distributions to steadily increase ownership in Chartwell without incurring any commission or brokerage fees.

To encourage participation, eligible investors registered in the DRIP will receive additional bonus units in an amount equal to 3% of their cash distributions. The right to receive the bonus units is being provided for no additional consideration.

Unitholders who are Canadian residents are eligible to participate. To register for the DRIP, please contact your investment advisor.

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