

CHC Student Housing Corp.
Condensed Consolidated Interim Financial Statements
June 30, 2019 (Unaudited)

**MANAGEMENT'S COMMENTS ON
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of CHC Student Housing Corp. (the "Company"), have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with standards established by the CPA Canada for a review of interim financial statements by an entity's auditor.

CHC Student Housing Corp.
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As at June 30, 2019 (Unaudited)

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CHC Student Housing Corp.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

As at	June 30, 2019	December 31, 2018
Assets		
Non-Current		
Investment properties (Note 4)	\$56,800,000	\$56,800,000
Furniture and equipment (Note 5)	452,132	409,416
Mortgage receivable (Note 4)	-	350,000
	57,252,132	57,559,416
Current		
Cash	316,712	281,879
Deposits and prepaid expenses (Note 6)	70,658	40,291
Accounts receivable (Note 7)	55,034	57,017
	442,404	379,187
Total Assets	\$ 57,694,536	\$ 57,938,603
Liabilities		
Non-Current		
Mortgages payable (Note 8)	\$48,251,537	\$48,027,918
	48,251,537	48,027,918
Current		
Accounts payable and accrued liabilities (Notes 9,13)	3,797,688	3,429,064
Note payable (Note 14)	900,000	900,000
Mortgages payable (Note 8)	2,557,635	2,532,904
	7,255,323	6,861,968
Total Liabilities	55,506,860	54,889,886
Shareholders' Equity		
Share Capital (Note 10)	20,191,771	20,191,771
Contributed Surplus	909,597	909,597
Deficit	(18,913,692)	(18,052,651)
	2,187,676	3,048,717
	\$57,694,536	\$57,938,603

Nature of the organization and going concern (Note 1)

Approved on behalf of the Board

(signed)"Tom Murphy"
 Tom Murphy
 Director

(signed)"Ron Schwarz"
 Ronald Schwarz
 Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

CHC Student Housing Corp.
Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss
(Unaudited)

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Revenue				
Property revenues	\$1,100,217	\$1,123,963	\$2,218,586	\$2,312,419
	1,100,217	1,123,963	2,218,586	2,312,419
Expenses				
Property operating expenses	422,211	407,186	853,689	892,995
Depreciation (Note 5)	13,094	10,303	25,032	34,731
General and administrative expenses	320,923	288,284	586,811	643,072
Interest and other financing charges (Note 11)	705,429	800,274	1,407,813	1,499,198
Fair value adjustment on investment property held for sale	-	(481,697)	-	(481,697)
Fair value adjustment on mortgage payable	(1,775)	-	205,282	-
Stock based compensation increase/(decrease) in fair value (Note 10)	(7,000)	(6,000)	1,000	(31,000)
	1,452,882	1,018,350	3,079,627	2,557,299
Net income/(loss) and comprehensive income/(loss)	(352,665)	105,613	(\$861,041)	(\$244,880)
Income/(Loss) per share				
Basic and diluted	(\$0.13)	\$0.04	(\$0.32)	(\$0.09)
Weighted average number of outstanding common shares				
Basic and diluted (Note 10)	2,716,465	2,716,465	2,716,465	2,716,465

The accompanying notes are an integral part of these condensed consolidated interim financial statements

CHC Student Housing Corp.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)

	Common Shares	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2017	\$20,191,771	\$909,597	(\$15,623,051)	\$5,478,317
Issuance of common shares, net	-	-	-	-
Net loss and comprehensive loss for the period	-	-	(244,880)	(224,880)
Balance, June 30, 2018	\$20,191,771	\$909,597	(\$15,867,931)	\$5,233,437
Balance, December 31, 2018	\$20,191,771	\$909,597	(\$18,052,651)	\$3,048,717
Issuance of common shares, net	-	-	-	-
Net loss and comprehensive loss for the period	-	-	(861,041)	(861,041)
Balance, June 30, 2019	\$20,191,771	\$909,597	(\$18,913,692)	\$2,187,676

The accompanying notes are an integral part of these condensed consolidated interim financial statements

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

Cash provided by (used in) the following activities:

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Operating activities				
Net income/(loss) and comprehensive income/(loss)	(\$352,665)	\$105,613	(\$861,041)	(\$244,880)
Adjustments for non-cash items:				
Stock-based compensation increase/(decrease) in fair value (Note 10)	(7,000)	(6,000)	1,000	(31,000)
Amortization of financing transaction costs (Note 11)	21,534	1,045	43,068	2,091
Depreciation (Note 5)	13,094	10,303	25,032	34,731
Straight line rent	2,946	2,532	5,291	(8,621)
Interest expense on mortgages payable (Note 11)	683,895	799,229	1,364,745	1,497,107
Cash interest paid	(576,079)	(791,577)	(1,157,546)	(1,488,470)
Fair value adjustment on investment property held for sale	-	(481,697)	-	(481,697)
Fair value adjustment on mortgage payable	(1,775)	-	205,282	-
Net change in working capital (Note 18)	77,564	(380,075)	126,750	(145,569)
Net cash changes from operating activities	(\$138,486)	(\$740,627)	(\$247,419)	(\$866,308)
Investing activities				
Additions to furniture and equipment (Note 5)	(46,431)	(63,472)	(67,748)	(63,893)
Net cash changes from investing activities	(46,431)	(63,472)	(67,748)	(63,893)
Financing activities				
Notes payable (Note 14)	-	750,000	-	900,000
Net proceeds from mortgage refinancing (Note 8)	-	332,401	-	332,401
Net proceeds from mortgage receivable (Note 1)	350,000	-	350,000	-
Mortgage principal repayments	-	(10,438)	-	(20,928)
Net cash changes from financing activities	350,000	1,071,963	350,000	1,211,473
Net increase (decrease) in cash and cash equivalents	165,083	267,864	34,833	281,272
Cash and cash equivalents, beginning of period	151,629	346,534	281,879	333,126
Cash and cash equivalents, end of period	\$316,712	\$614,398	\$316,712	\$614,398

CHC Student Housing Corp.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

1. Nature of the organization and going concern

CHC Student Housing Corp. (the "Company") was incorporated under the *Business Corporations Act* (Ontario) on April 12, 2013 with the intent to be classified as a Capital Pool Company as defined in Policy 2.4 of the Toronto Venture Stock Exchange (the "TSXV") corporate finance manual. The Company completed an initial public offering as a Capital Pool Company on November 19, 2013. As a Capital Pool Company, the Company proposed to identify and evaluate potential properties, assets or businesses as a potential Qualifying Transaction, and once identified and evaluated, to negotiate an acquisition or participation therein subject to regulatory approval and, if required, shareholders' approval. On April 3, 2014, the Company announced it had completed its Qualifying Transaction. The Company submitted final documentation with respect to the Qualifying Transaction to the TSXV and was granted Tier 2 status on the TSXV.

On October 30, 2014, the Company filed an amendment to its articles of incorporation as approved by its shareholders. The amendment added retraction rights to the conditions attaching to the common shares of the Company so that it will be able to qualify as a "mutual fund corporation" as defined in the Income Tax Act (Canada) and the regulations thereunder. The Company's shares are listed on the TSXV under the symbol "CHC". The registered office of the Company and its head office operations are located at 53 Yonge Street, 5th Floor, Toronto, Ontario, M5E 1J3.

The Company owns student housing properties in close proximity to universities and colleges in primary and well understood secondary markets, with a focus on contemporary, purpose-built student housing properties.

Going concern

The Company's condensed consolidated interim financial statements are prepared on a going concern basis.

The Company's ability to continue as a going concern is subject to a number of risks and uncertainties. The Company has incurred net losses and used significant cash resources in its operating activities since incorporation and it has relied upon financing to fund its operations and acquisitions, primarily through debt and private equity placements. The material uncertainties below cast a significant doubt about the Company's ability to continue as a going concern.

The Company incurred a net loss of \$861,041 for the six months ended June 30, 2019 (six months ended June 30, 2018 - net loss of \$244,880) and as at June 30, 2019 current liabilities exceeded current assets by \$4,255,284 (December 31, 2018 - \$3,949,877) excluding mortgages payable. The Company has relied upon financing to fund its operations primarily through debt and private equity placements. The ability of the Company to continue as a going concern is dependent on several factors, including its ability to secure additional funding.

- During the period April 1, 2018, to June 4, 2018, the Company entered into senior loan agreements with certain related parties and an independent investor for \$750,000, that matured on June 30, 2019, bearing interest at 8% per annum payable quarterly. The Company has negotiated an extension of these loan agreements to December 31, 2019. The extended loan agreements bear interest at 8% per annum payable quarterly.
- On June 30, 2018, the Company refinanced the property located at 1620-1720 rue de Père- Marquette in Trois-Rivières, Québec (the "**Trois-Rivières Property**") with a new mortgage of \$2,570,000 at an interest rate that is the greater of the Royal Bank of Canada prime lending rate plus 4.05% or 7.50% per annum, interest is payable monthly. The mortgage matures on September 30, 2019.
- On July 13, 2018, the Company refinanced the property located at 675 Richmond Street in London, Ontario (the "**London Property**"). An arm's length third party lender assumed the existing \$33,000,000 first mortgage on the property which was amended to bear interest at a rate of 90-day Bankers Acceptances plus 2.55% maturing on June 30, 2021. Also on July 13, 2018, the Company secured a new second mortgage for \$14,000,000 on the same property with a related party lender at an interest rate of 7% maturing on June 30, 2021. Under the terms of the second mortgage agreement the Company has deferred interest payments on \$6,000,000 of this mortgage until December 31, 2019.
- The Company sold the property located at the corner of Barrie and Queen Street in Downtown Kingston, Ontario (the "**Kingston Property**") on July 31, 2018. The sale provided the Company with \$633,684 in net proceeds after a vendor take back mortgage of \$350,000. The vendor take back mortgage has a 5% interest rate per annum payable monthly and matures on July 31, 2021. The proceeds were used to fund ongoing operations.
- On May 1, 2019, a director of the Company purchased the above vendor take back mortgage on the same terms and conditions at book value. This generated a cash inflow of \$350,000 which was used as working capital in the Company.

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

1. Nature of the organization and going concern (continued)

In addition, the Company continues to explore all available options to achieve long term financial stability including, but not limited to, further refinancing, recapitalization, privatization and the sale of assets or the Company.

These condensed consolidated interim financial statements do not include any additional adjustments to the recoverability and classification of recorded asset amounts, classification of liabilities and changes to the statements of loss and comprehensive loss that might be necessary if the Company was unable to continue as a going concern.

Principles of Consolidation

These condensed consolidated interim financial statements include the accounts of the parent Company, CHC Student Housing Corp. and its wholly owned subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

Subsidiaries

Subsidiaries are entities where the Company has control. Control is achieved when CHC Student Housing Corp. is exposed to, or has the rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or in the case of structured entities, other contractual arrangements. The Company reassesses whether or not it controls an investee based on current facts and circumstances. All subsidiaries are consolidated from the date CHC Housing Corp. obtains control and continues to be consolidated until the date that such control ceases.

2. Summary of significant accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applied on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. See note 1.

The condensed consolidated interim financial statements are prepared on a historical basis except for investment properties and certain mortgages payable, which are measured at fair value.

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements have been presented in Canadian dollars and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018.

3. Critical accounting estimates, assumptions, and judgments

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The critical accounting estimates and judgments applied in the preparation of these condensed consolidated interim financial statements are the same as those set out in Note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2018.

CHC Student Housing Corp.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

4. Investment properties

Fair values are determined by generally using the overall capitalization rate method. Under this method, capitalization rates are applied to a stabilized net operating income for each property, determined as property revenues less property operating expenses adjusted for market-based assumptions such as rent increases, long-term vacancy rates, repair and maintenance costs and other forecasted cash flows. Capitalization rates are based on recently closed transactions for similar properties, where available, or investment survey data, taking into account the location, size and quality of the property. The Company measures its investment properties using valuations prepared by management. The Company obtains valuations prepared by external appraisers as data points, together with other market and property specific information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as the overall capitalization rate applied in external appraisals to arrive at its estimates of fair value. The weighted average capitalization rate at June 30, 2019, was 5.1% (December 31, 2018 - 5.1%).

<i>As at</i>	June 30, 2019	December 31, 2018
Balance at the beginning of the year	\$56,800,000	\$5,400,000
Sale of investment properties	-	(2,381,697)
Reclassification from investment property held for sale	-	53,300,000
Building improvements	-	240,711
Fair value adjustment on investment properties	-	240,986
Balance at the end of the period	\$56,800,000	\$56,800,000

One of the Company's investment properties is situated on land subject to a long term lease. The annual lease payment is \$1,000 and the term expires in 2047.

The Company sold the Kingston Property on July 31, 2018. The sale provided the Company with net proceeds of \$633,684 after a vendor take back mortgage of \$350,000 secured on the property. The vendor take back mortgage had a 5% interest rate per annum payable monthly and matured on July 31, 2021. There was no gain or loss on the sale. On May 1, 2019, a director of the Company purchased the vendor take back mortgage on the same terms and conditions at book value.

The following table summarizes the sensitivity of fair value of investment properties, including investment property held for sale, to changes in the capitalization rate and implied NOI:

As at June 30, 2019

Implied NOI	-3%	-1%	As estimated	1%	3%
	\$2,791,175	\$2,848,725	\$2,877,500	\$2,906,275	\$2,963,825
Capitalization Rate					
-0.50% 4.6%	\$61,129,262	\$62,389,659	\$63,019,857	\$63,650,056	\$64,910,453
-0.25% 4.8%	57,956,037	59,151,007	59,748,492	60,345,977	61,540,947
Cap Rate Used 5.1%	55,096,000	56,232,000	56,800,000	57,368,000	58,504,000
+0.25% 5.3%	52,504,964	53,587,541	54,128,829	54,670,118	55,752,694
+0.50% 5.6%	\$50,146,684	\$51,180,636	\$51,697,612	\$52,214,588	\$53,248,540

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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5. Furniture and equipment

<i>As at</i>	June 30, 2019	December 31, 2018
Balance at the beginning of the year	\$409,416	\$390,731
Additions	67,748	71,142
Less: Depreciation	(25,032)	(52,457)
Balance at the end of the period	\$452,132	\$409,416

6. Deposits and prepaid expenses

<i>As at</i>	June 30, 2019	December 31, 2018
Prepaid property taxes	\$51,549	\$8,464
Other	19,109	31,827
Balance at the end of the period	\$70,658	\$40,291

7. Accounts receivable

<i>As at</i>	June 30, 2019	December 31, 2018
Rent and other receivables	\$64,434	\$63,548
Allowance for doubtful accounts	(9,400)	(6,531)
Balance at the end of the period	\$55,034	\$57,017

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

8. Mortgages payable

As at June 30, 2019, mortgages payable bear interest at a weighted average interest rate of 5.31% (December 31, 2018 – 5.57%). The Company has one fixed rate mortgage of \$14,000,000 (classified and measured at FVTPL) and two floating rate mortgages in the aggregate amount of \$35,570,000 (classified and measured at amortized cost) at June 30, 2019 (December 31, 2018 - \$35,570,000). The fair value of one of the mortgages payable is higher than the contracted value by \$1,324,887 (December 31, 2018 - \$1,119,605). The mortgages payable are secured by the Company's investment properties.

<i>As at June 30, 2019</i>	Mortgages classified as FVTPL Amount	Mortgages classified at Amortized cost Amount	% of Total Principal
2019	\$-	\$2,570,000	5.2%
2020	-	-	-
2021	14,000,000	33,000,000	94.8%
	14,000,000	35,570,000	100.0%
Unamortized deferred financing costs	(21,851)	(63,864)	
	13,978,149	35,506,136	
Fair value adjustment	1,324,887		
Total	\$15,303,036	\$35,506,136	

Mortgages payable summary:

Non-current portion	\$48,251,537
Current portion	2,557,635
Total	\$50,809,172

On June 30, 2018 the Company refinanced the Trois-Rivières Property with a new mortgage of \$2,570,000 at an interest rate that is the greater of the Royal Bank of Canada prime lending rate plus 4.05% or 7.50% per annum. Payment terms include monthly interest payments and the principal payment of the mortgage is due at maturity on September 30, 2019. This refinancing generated net proceeds of \$332,401 after financing costs and discharge of the existing mortgage of \$2,177,500

On July 13, 2018 the Company refinanced the London Property located in London, Ontario. An arm's length third party lender assumed the existing \$33,000,000 first secured mortgage on the property which was amended to bear interest at a rate of 90-day Bankers Acceptances plus 2.55%. Payment terms include monthly interest payments and the principal payment of the mortgage is due at maturity on June 30, 2021.

Also on July 13, 2018, the Company secured a new second mortgage for \$14,000,000 on the same property with a related party lender at a fixed interest rate of 7% maturing on June 30, 2021. This agreement includes a deferred interest on \$6,000,000 for 18 months. As part of the second secured mortgage agreement the Company has entered into a profit participation agreement with the lender which may require the Company to pay to the lender an amount ("additional consideration") equal to, the greater of i) 40% of a certain future performance of the property above an NOI threshold, and ii) 40% of the uplift of the selling price of the property, in the event of a sale, above the value of the property threshold, less deferred interest. This agreement expires on June 30, 2023. This mortgage was fair valued at \$15,303,036 at June 30, 2019 (December 31, 2018 - \$15,092,291). In order to calculate the FV of the mortgage the Company utilized the following key inputs, timing of the additional consideration, discount rate and the value of the building.

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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9. Accounts payable and accrued liabilities

As at June 30, 2019, accounts payable and accrued liabilities were comprised of the following:

	June 30, 2019	December 31, 2018
Trade payables	\$2,682,407	\$2,529,172
Accrued interest payable	711,940	504,740
Security deposits	403,341	395,152
Total	\$3,797,688	\$3,429,064

10. Share capital

a) Authorized and issued

The Company is authorized to issue an unlimited number of common shares.

	Number of Shares	Amount	Equity Issuance Costs	Net Equity
Issued and outstanding common shares				
Opening balance at January 1, 2018	2,716,465	\$21,451,764	(\$1,259,993)	\$20,191,771
Issuance of common shares, net	-	-	-	-
Closing balance at December 31, 2018	2,716,465	\$21,451,764	(\$1,259,993)	\$20,191,771
Issuance of common shares, net	-	-	-	-
Closing balance at June 30, 2019	2,716,465	\$21,451,764	(\$1,259,993)	\$20,191,771

The shares of the Company are redeemable at the option of the holder and therefore are required to be accounted for as financial liabilities, except where certain exemption conditions are met, in which case redeemable instruments may be classified as equity. The attributes of the Company's shares meet the exemption conditions set out in IAS 32, Financial Instruments: Presentation, and are therefore presented as equity for purposes of that standard.

b) Stock options and deferred share units

During 2013, the Company implemented a stock option plan that entitles directors, officers and employees of the Company to be awarded options. The options are granted and approved by the Board of Directors and have a strike price based on the preceding 5-day volume weighted average trading price from the grant date.

The Company granted 48,529 options in November 2013. No options have been subsequently granted.

The options expired on December 31, 2018, and were as follows:

Stock options awarded in	Number	Exercise Price	Expiry date	Fair Value at Grant Date
November 2013	48,529	\$8.50	December 2018	\$309,000

The fair value of the financial liability related to these options had a nil value at June 30, 2019 as these options had already expired (June 30, 2018 - recovery of \$2,000) comprising the mark to market adjustment on the options.

On September 13, 2016, the Company's board adopted a deferred share unit plan (the "DSU Plan") and approved the grant of 63,070 deferred share units (the "DSUs") to the directors in settlement of directors' fees accrued and unpaid during 2015 and the first two quarters of 2016, for an aggregated fair value amount of \$304,000. Included in the aggregate fair value at the time of the grant was \$121,000 of board compensation expenses already accrued in 2015 and \$183,000 of board compensation incurred in the first two quarters of 2016. On October 12, 2017, the Company's Board approved the grant of 41,609 DSUs under the DSU Plan to the directors in settlement of directors' fees accrued and unpaid during the last two quarters of 2016 and the first quarter of 2017, for an aggregated fair value amount of \$149,250.

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Notes to the Condensed Consolidated Interim Financial Statements

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10. Share capital (continued)

The DSUs are currently to be settled in cash when a director ceases to be a director of the Company. The fair value of the financial liability related to DSUs as at June 30, 2019 was \$100,000 (December 31, 2018 - \$99,000), included in accounts payables and accrued liabilities, and an expense of \$1,000 (June 30, 2018 – recovery \$29,000) was recognized in stock based compensation expense and change in fair value for the period ended June 30, 2019, comprising the mark to market adjustment on the units.

Accordingly, the stock based compensation revaluation recognized in the Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss for the period ended June 30, 2019 was an expense of \$1,000 (June 30, 2018 – recovery \$31,000) from the recognition of the options and DSUs.

c) Warrants

As part of the refinancing of a second mortgage completed on July 13, 2018, the Company issued 200,000 warrants. The warrants have an expiry date of June 30, 2021. Each warrant entitles the holder to purchase one share for each warrant held at an exercise price of \$1.00 per share.

None of the stock options issued to the directors and officers of the Company or the agent's options or the warrants were included in the calculation of diluted loss per share as the effect would be anti-dilutive.

11. Interest expense

Interest expense was comprised of the following:

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Interest on mortgages payable	\$683,895	\$799,229	\$1,364,745	\$1,497,107
Amortization of financing transaction costs	21,534	1,045	43,068	2,091
Interest and other financing charges	\$705,429	\$800,274	\$1,407,813	\$1,499,198

12. Income taxes

No income taxes are charged to other comprehensive income or equity for the periods ended June 30, 2019 and December 31, 2018.

The Company's statutory income tax rate has remained consistent at 39.5% in 2019 (2018 - 39.5%).

Reconciliation of tax expense and accounting income for the period ended June 30, 2019, are set out below:

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Net income/(loss)	(352,665)	105,613	(\$861,041)	(\$244,880)
Expected income tax payment (recovery) at statutory income tax rates	(139,303)	41,717	(340,111)	(96,728)
Permanent differences	(3,466)	2,370	81,481	12,245
Utilization of previously unrecognized tax losses	-	-	-	-
Non-recognition of the benefit of current year's tax losses	142,769	(44,087)	258,630	84,483
Income tax expense	\$-	\$-	\$-	\$-

CHC Student Housing Corp.
Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

12. Income taxes (continued)

Deferred income tax assets and liabilities as at June 30, 2019, relate to the following:

<u>As at</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Non-capital losses (Canada)	\$8,063,527	\$7,401,028
Net capital losses (Canada)	21,050	10,543
Other deferred tax assets	99,432	153,879
Deferred tax liabilities	(1,342,189)	(1,033,532)
Non-recognition of deferred tax assets	(6,841,820)	(6,531,918)
Total net deferred tax asset	\$ -	\$ -

The future benefit of these losses and deductible temporary differences has not been recognized in the financial statements.

The Company is a "mutual fund corporation" for income tax purposes. As such, the Company can manage, and intends to manage, its affairs such that capital gains will ultimately not be taxed within the Company, but rather in the hands of its shareholders. Accordingly, deferred taxes are not recognized in respect of temporary differences on capital account, specifically, temporary differences on capital account related to Investment Properties. As at June 30, 2019, the unrecognized taxable temporary difference related to Investment Properties was \$1.33 million (December 31, 2018 - \$1.02 million).

As at June 30, 2019, the expiry dates of the unrecognized deferred tax assets are 2033 to 2038.

13. Related party transactions`

The Company obtains certain corporate services from an entity controlled by a director of the Company. During the period ended June 30, 2019, these corporate services to the Company amounted to \$29,243 (June 30, 2018 - \$45,859). Management services were provided to the Company by a related party until March 2018. Subsequently a company controlled by an officer and director provided the management services to the Company. During the period ended June 30, 2019, these management services amounted to \$101,700 (June 30, 2018 - \$94,143).

Included in the Company's accounts payable and accrued liabilities at June 30, 2019, was an amount of \$722,538 (December 31, 2018 - \$693,295) payable to these related parties.

During the year 2018 the Company secured a second mortgage of \$14,000,000 on one of its properties with a lender having an officer and director that is also a director of the Company. See note 8.

On May 1, 2019, a director of the Company purchased the vendor take back mortgage of \$350,000 from the sale of the Kingston Property at book value.

Related party notes payable are detailed below in note 14.

14. Note payable

The Company negotiated an extension of a loan agreement for \$150,000 with a shareholder. The loan matured on June 30, 2019 and was extended to December 31, 2019. The extended loan agreement bears interest at 8% per annum payable quarterly. The Company also negotiated an extension of other senior loan agreements totaling \$750,000 with certain directors of the Company and an independent investor. These loans matured on June 30, 2019 and were extended to December 31, 2019. The extended loan agreements bear interest at 8% per annum payable quarterly.

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15. Capital management

The Company manages its mortgages, common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash it holds.

Key financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreements. As at June 30, 2019 the Company was in compliance with the specified minimum debt service coverage ratio for the London Property

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

16. Financial risk management

In the normal course of business, the Company is exposed to financial risk and manages that risk, as follows:

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity are satisfied through a variety of sources including cash, net operating income and capital markets, and to meet the Company's financial obligations associated with financial liabilities. Additional sources of liquidity are debt and equity financing, which is used to fund additional operating and other expenses and retire debt obligations, if any, at their maturity.

If the Company is otherwise unable to satisfy its current liabilities through suitable agreements for debt refinancing, equity financing or other measures, planned operations could be scaled back and a portion of the Company's assets could be sold.

The contractual maturities of the Company's financial liabilities are summarized by year below:

	Total	2019	2020	Thereafter
Mortgages payables ⁽¹⁾	\$54,480,318	\$3,835,601	\$2,429,811	\$48,214,906
Accounts payable & accrued liabilities	3,797,688	3,797,688	-	-
Notes payable	936,000	936,000	-	-
	\$59,214,006	\$8,5693,289	\$2,429,811	\$48,214,906

⁽¹⁾ Includes both principal and interest

Refer to note 1 for a discussion regarding the Company's ability to carry on its operations through the next operating period.

Credit Risk

Credit risk rises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, the stated amount is typically the gross carrying amount, net of any amounts offset and any impairment losses. As of the date of these condensed consolidated interim financial statements, the Company's principal debtors are the Company's residents who may experience financial difficulty and be unable to meet their rental obligations. The Company mitigates its risk of credit loss with respect to residents by evaluating credit worthiness of new tenants, obtaining security deposits wherever permitted by legislation and obtaining parental guarantees of resident leases.

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16. Financial risk management (continued)

Market Risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments.

Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments or on the fair value of other financial instruments. The Company has both fixed and floating rate mortgages. The fixed rate mortgage has a term of twenty four (24) months and the floating rate mortgages have terms that range from three (3) months to twenty four (24) months. The impact of a fifty (50) basis point change on fixed rate debt would be an increase or decrease in interest expense of \$70,000 on an annual basis. The impact of a fifty (50) basis point change in the floating rate debt would be an increase or decrease in interest expense of \$177,850 on an annual basis. The impact of a fifty (50) basis point change in the floating rate debt that is maturing in three (3) months would be an increase or decrease in interest expense of \$12,850 on an annual basis

In relation to the fair value of the second mortgage, if the fair value of the property were to change by 5%, the impact to the fair value of debt would be \$997,553. In addition, a 5% change in interest rates will result in an impact to the FV of debt of \$64,365.

17. Fair value measurements

The Company has classified and disclosed each fair value measurement based on the fair value hierarchy in accordance with IFRS 13 – Fair Value Measurement. The fair value hierarchy distinguishes between market value data obtained from independent sources and the Company's own assumptions about market value. The hierarchy levels are defined as below:

Level 1 – Inputs based on quoted prices in active market for identical assets or liabilities;

Level 2 – Inputs based on factors other than quoted prices included in Level 1 and may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 - Inputs which are unobservable for the asset or liability, and are typically based on the Company's own assumptions, as there is little, if any, related market activity.

Financial instruments include cash, accounts receivable, and mortgages payable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate fair value due to their short term nature.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company has classified and disclosed each fair value measurement based on the fair value hierarchy in accordance with IFRS 13 – Fair Value Measurement. The fair value hierarchy distinguishes between market value data obtained from independent sources and the Company's own assumptions about market value. The hierarchy levels are defined as below:

Level 1 – Inputs based on quoted prices in active market for identical assets or liabilities;

Level 2 – Inputs based on factors other than quoted prices included in Level 1 and may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 - Inputs which are unobservable for the asset or liability, and are typically based on the Company's own assumptions, as there is little, if any, related market activity.

Financial instruments include cash, accounts receivable, mortgages receivable, mortgages payable, accounts payable, notes payable and accrued liabilities. The carrying values of these financial instruments approximate fair value due to their short term nature.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety, requires judgment and considers factors specific to the asset or liability.

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17. Fair value measurements (continued)

The following table presents the Company's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at June 30, 2019, and aggregated by level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts the Company could ultimately realize. Mortgages payable are measured at amortized cost and fair value through profit and loss and the fair value measurement in the table below is presented for disclosure purposes only.

Recurring measurements or disclosures	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant other unobservable inputs	Total
Assets				
Investment properties (Note 5)	\$-	\$-	\$56,800,000	\$56,800,000
Liabilities				
Mortgages payable	\$-	\$35,506,136	\$15,303,036	\$50,809,172
Notes payable	\$-	\$936,000	\$-	\$936,000

18. Net change in working capital

For the year ended	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Deposits and prepaid expenses	49,004	(\$4,759)	(\$30,366)	(\$111,281)
Accounts receivable	(5,069)	(38,706)	(3,308)	(53,748)
Accounts payable and accrued liabilities	33,629	(336,610)	160,424	19,460
Net change in working capital items	77,564	(\$380,075)	126,750	(\$145,569)

19. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2019 condensed consolidated interim financial statements.

20. Approval of financial statements

The condensed consolidated interim financial statements were approved by the Company's Board of Directors and authorized for issue on August 28, 2019.