

## **BUSINESS ACQUISITION REPORT**

### **Item 1 - Identity of Company**

#### **1.1 Name and Address of Company**

CHC Realty Capital Corp. (“CHC”)  
53 Yonge Street, 5<sup>th</sup> Floor  
Toronto, Ontario M5E 1J3

#### **1.2 Executive Officer**

Mark Hansen  
President and Chief Executive Officer  
(647) 288-9355

### **Item 2 - Details of Acquisition**

#### **2.1 Nature of Business Acquired**

CHC acquired a student housing rental property (land and two buildings) located at 3170 and 3190 Donnelly Street, Windsor, Ontario (the “Property”). The Property is located in close proximity to the University of Windsor (approximately 0.75 km) and includes two apartment buildings (one 7-storey and one 8-storey) constructed circa 1972 and 1979 and containing a total of 117 student beds in 87 student apartments, as well as surface and underground parking. CHC acquired the Property indirectly through its wholly-owned subsidiary limited partnership, CHC Student Housing Acquisition Limited Partnership.

#### **2.2 Acquisition Date**

September 11, 2014.

#### **2.3 Consideration**

The purchase price for the Property was \$5,900,000, subject to customary closing adjustments, which CHC satisfied through a mortgage on the Property in the principal amount of \$4,000,000, which bears interest at 3.47% per annum, and the payment to the vendor of the balance of the purchase price of \$1,900,000 from CHC’s cash on hand (including proceeds from a private placement completed by CHC in August 2014 in connection with the acquisition for gross proceeds of \$7,522,976).

#### **2.4 Effect on Financial Position**

The acquisition of the Property formed part of CHC’s strategy to acquire high quality student housing rental properties in close proximity to universities and colleges in primary and well-understood secondary markets. The acquisition did not result in any change to CHC’s corporate or capital structure, other than the aforementioned mortgage, nor are any changes contemplated as a result of the acquisition. The effect of the acquisition on the financial position of CHC is set out in CHC’s financial statements and related management’s discussion and analysis for the interim period ended September 30, 2014, which are available under CHC’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **2.5 Prior Valuations**

To the knowledge of CHC, and except as described below, there has been no valuation opinion obtained within the last 12 months of the acquisition date of the Property by the previous owners or by CHC required by securities legislation or a Canadian exchange or market to support the consideration paid by CHC for the Property.

In connection with the purchase of the Property, CHC obtained an appraisal report dated July 9, 2014 (the "Appraisal") prepared by Valco Consultants Inc., a qualified and independent appraiser, and reviewed by CHC prior to the purchase of the Property. The Appraisal was prepared using established industry valuation methodologies. The Appraisal indicated that, as of June 30, 2014, the appraised value of the Property was \$5,900,000.

## **2.6 Parties to Transaction**

The Property was purchased from 2252982 Ontario Limited, a corporation incorporated under the laws of Ontario, which is arm's length and not related to CHC or any of its informed persons, associates or affiliates.

## **2.7 Date of Report**

January 28, 2015.

### **Item 3 - Financial Statements and Other Information**

The following financial statements and the related notes thereto are attached hereto:

- (i) Schedule "A" - financial statements of the Property as at and for the years ended July 31, 2014 and 2013, together with the independent auditor's report thereon as at and for the year ended July 31, 2014;
- (ii) Schedule "B" - financial statements of 335 Barrie Street, Kingston, Ontario (the "QT Property") as at and for the years ended December 31, 2013 and 2012, together with the independent auditor's report thereon as at and for the year ended December 31, 2013 (which have been included in this Business Acquisition Report due to certain adjustments relating to the QT Property reflected in the unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) of CHC for the nine-month period ended September 30, 2014 noted below because of the acquisition of the QT Property during such period);
- (iii) Schedule "C" - unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) of CHC reflecting the acquisition of the Property and the QT Property for the nine-month period ended September 30, 2014 and for the period from April 12, 2013 (date of incorporation) to December 31, 2013.

As noted above, the effect of the acquisition of the Property, as well as the effect of the acquisition of the QT Property, on the financial position of CHC is set out in CHC's consolidated financial statements and related management's discussion and analysis for the interim period ended September 30, 2014, which are available under CHC's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE A**  
**FINANCIAL STATEMENTS OF THE PROPERTY**

*Financial Statements of*

**3170 and 3190 Donnelly Street, Windsor, Ontario**

July 31, 2014

## Independent Auditor's Report

To the Shareholders of CHC Realty Capital Corp.

We have audited the accompanying financial statements of 3170 & 3190 Donnelly Street, Windsor, Ontario (the "Property"), which comprise the balance sheet as at July 31, 2014, and the statement of income and comprehensive income, statement of changes in net assets attributable to owner and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Property as at July 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
January 28, 2015

# 3170 & 3190 Donnelly Street, Windsor, Ontario

## Balance Sheet

July 31 (Canadian \$)	Notes	2014	2013 (Unaudited)
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	4	5,900,000	5,300,000
Other		21,000	21,000
<b>Total assets</b>		<b>5,921,000</b>	<b>5,321,000</b>
<b>Liabilities</b>			
<b>Non-current liability</b>			
Property debt	5	1,654,065	1,764,534
<b>Current liabilities</b>			
Current portion of property debt		787,513	783,586
Accounts payable and accrued liabilities		27,319	10,227
Security deposits		52,193	43,200
<b>Total liabilities</b>		<b>2,521,090</b>	<b>2,601,547</b>
<b>Net assets attributable to owner</b>		<b>3,399,910</b>	<b>2,719,453</b>
<b>Total liabilities and net assets</b>		<b>5,921,000</b>	<b>5,321,000</b>

*See accompanying notes to the financial statements.*

## 3170 & 3190 Donnelly Street, Windsor, Ontario

### Statement of Income and Comprehensive Income

Year ended July 31 (Canadian \$)	Notes	2014	2013 (Unaudited)
Rental revenues		<b>626,313</b>	587,351
Property operating expenses	6	<b>(482,334)</b>	(389,354)
Net rental income		<b>143,979</b>	197,997
Interest expense	5	<b>(68,389)</b>	(72,915)
Fair value gain on investment property		<b>579,680</b>	481,086
Net income and comprehensive income		<b>655,270</b>	606,168

*See accompanying notes to the financial statements.*

### Statement of Changes in Net Assets Attributable to Owner

Year ended July 31 (Canadian \$)	2014	2013 (Unaudited)
Net assets attributable to Owner, beginning of year	<b>2,719,453</b>	2,116,874
Net income and comprehensive income	<b>655,270</b>	606,168
Contributions (distributions), net	<b>25,187</b>	(3,589)
<b>Net assets attributable to Owner, end of year</b>	<b>3,399,910</b>	2,719,453

*See accompanying notes to the financial statements.*

## 3170 & 3190 Donnelly Street, Windsor, Ontario

### Statement of Cash Flows

Year ended July 31 (Canadian \$)	2014	2013 (Unaudited)
<b>Operating activities</b>		
Net income	655,270	606,168
Adjustments:		
Fair value gain on investment property	(579,680)	(481,086)
Working capital	26,085	36
Cash flows provided by operating activities	101,675	125,118
<b>Investing activities</b>		
Capital expenditures	(20,320)	(18,914)
Cash flows used in investing activities	(20,320)	(18,914)
<b>Financing activities</b>		
Property debt repayments	(106,542)	(102,615)
Contributions (distributions)	25,187	(3,589)
Cash flows used in financing activities	(81,355)	(106,204)
Increase (decrease) in cash	-	-
Cash, beginning of year	-	-
<b>Cash, end of year</b>	-	-

*See accompanying notes to the financial statements.*

# 3170 & 3190 Donnelly Street, Windsor, Ontario

## Notes to the Financial Statements

July 31, 2014

### NOTE 1: GENERAL

These financial statements represent the assets, liabilities, revenues and expenses of the 3170 & 3190 Donnelly Street, Windsor, Ontario (the “Property”) and do not include all the assets, liabilities, revenues or expenses of 2252982 Ontario Ltd. (the “Owner”). The Property is owned 100% by the Owner.

The principal business of the Property is to earn rental income from its residential tenants.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements of the Property are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

#### (b) Basis of presentation

The financial statements are prepared on a going concern basis and have been presented in Canadian dollars, the functional currency of the Property. The accounting policies set out below have been applied consistently in all material respects.

#### (c) Investment property

Investment property includes property held to earn rental income or for capital appreciation or both. Investment property is carried at fair value, determined based on available market evidence, at the balance sheet date. Related fair value gains and losses are recorded in net income in the year in which they arise.

#### (d) Revenue recognition

The Owner has retained substantially all of the risks and benefits of ownership of the Property and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease.

#### (e) Financial instruments

The following summarizes the Property’s classification and measurement of financial instruments:

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<b>Financial assets and liabilities</b>	<b>Classification</b>	<b>Measurement</b>
Accounts payable	Other liabilities	Amortized cost
Property debt	Other liabilities	Amortized cost

#### (f) Critical accounting estimates and assumptions

The Property makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ from estimates. The critical estimates and assumptions underlying the valuation of investment property are set out in Note 4.

#### (g) Cash

The Property does not have a separate bank account. Any cash receipts or disbursements are deposited to or made from a bank account of the Owner on behalf of the Property and are recorded as contributions or distributions, respectively, in net assets attributable to the Owner.

#### (h) Income taxes

The Property is not subject to Federal or Provincial income taxes; accordingly, the Property makes no provision for income taxes in its financial statements. Taxable income or loss is reportable by the Owner.

#### (i) Fair Value Measurement

The Property adopted IFRS 13, “Fair Value Measurement” effective January 1, 2013. IFRS 13 establishes a single source for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and required disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRS’s require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. The

# 3170 & 3190 Donnelly Street, Windsor, Ontario

## Notes to the Financial Statements

July 31, 2014

Property has assessed its fair value measurement framework and concluded that no change to the current treatment was required.

### NOTE 3: FUTURE ACCOUNTING CHANGES

#### Financial Instruments

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption.

Management will continue to evaluate the impact of this standard.

### NOTE 4: INVESTMENT PROPERTY

	31-Jul-14	31-Jul-13 (Unaudited)
Balance, beginning of year	\$ 5,300,000	\$ 4,800,000
Capital expenditures	20,320	18,914
Fair value gain on investment property	579,680	481,086
Balance, end of year	\$ 5,900,000	\$ 5,300,000

The fair value of the Property is determined based upon, among other things, assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflow in respect of property operating expenses. Fair values were determined by applying an overall capitalization rate to an estimate of the Property’s stabilized rental revenue less property operating expenses. The fair value of the Property was based on Level 3 inputs. The fair value of the Property was based on a valuation by an independent appraiser having the relevant professional qualifications and experience in the market in which the Property is located.

### NOTE 5: PROPERTY DEBT

At July 31, 2014, the balance of property debt was \$2,441,578 (July 31, 2013 - \$2,548,120 (unaudited)). The debt consisted of a first mortgage loan of \$1,760,607 secured by the Property, bearing interest at 3.790% and maturing on September 1, 2015 and a non-interest bearing loan of \$680,971 secured by the Property and due on demand.

For the year ended July 31, 2014, interest expense of \$68,389 (July 31, 2013 - \$72,915 (unaudited)) was recorded on the property debt.

The fair value of property debt is based on Level 2 inputs and determined by discounting contractual principal and interest payments at estimated current market interest rates for the instrument. Current market interest rates are determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As of July 31, 2014, the fair value of property debt approximates its carrying value.

The Property is exposed to interest rate risk on refinancing of the property debt. It manages this risk by using long-term borrowings at fixed rates. A 50 basis point change in the interest rate on the property debt as of the date of refinancing the property debt would cause an \$8,800 change in interest expense.

### NOTE 6: PROPERTY EXPENSES

The following property expenses were incurred during the year.

# 3170 & 3190 Donnelly Street, Windsor, Ontario

## Notes to the Financial Statements

July 31, 2014

	31-Jul-14	31-Jul-13 (Unaudited)
Repairs and maintenance	\$ 45,109	\$ 15,413
Utilities	160,344	119,743
Payroll	84,674	68,139
Insurance	10,090	8,247
Property tax	151,375	146,233
General and administrative	13,959	14,051
Cleaning	7,231	8,141
Security	7,098	6,567
Marketing	2,454	2,820
	<u>\$ 482,334</u>	<u>\$ 389,354</u>

### NOTE 7: SUBSEQUENT EVENT

On September 11, 2014, the Property was sold to CHC Realty Capital Corp. for total consideration of \$5.9 million. All property debt was discharged on closing.

### NOTE 8: AUTHORIZATION AND APPROVAL

The financial statements along with the notes have been approved and authorized for issue by Management on January 26, 2015.

**SCHEDULE B**

**FINANCIAL STATEMENTS OF THE QT PROPERTY**

*Financial Statements of*

**335 Barrie Street, Kingston, Ontario**

December 31, 2013

## Independent Auditor's Report

To the Shareholders of CHC Realty Capital Corp.

We have audited the accompanying financial statements of 335 Barrie Street, Kingston, Ontario (the "Property"), which comprise the balance sheet as at December 31, 2013, and the statement of income and comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Property as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



# 335 Barrie Street, Kingston Ontario

## Balance Sheet

December 31 (CDN\$)	Notes	2013	2012
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	4	2,500,000	2,270,000
<b>Current assets</b>			
Accounts receivable		12,280	20,700
Prepaid assets		1,653	1,572
		13,933	22,272
<b>Total assets</b>		<b>2,513,933</b>	<b>2,292,272</b>
<b>Liabilities</b>			
<b>Non-current liability</b>			
Property debt	5	-	1,272,529
<b>Current liability</b>			
Property debt		1,272,526	36,640
<b>Total liabilities</b>		<b>1,272,526</b>	<b>1,309,169</b>
<b>Net assets</b>		<b>1,241,407</b>	<b>983,103</b>
<b>Total liabilities and net assets</b>		<b>2,513,933</b>	<b>2,292,272</b>

*See accompanying notes to the financial statements.*

335 Barrie Street, Kingston Ontario

## Statement of Income and Comprehensive Income

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Year ended December 31 (CDN\$)	Notes	2013	2012	2011
			(Unaudited)	(Unaudited)
Property revenues	7	\$ 231,468	\$ 217,792	\$ 209,992
Property expenses	8	81,801	75,592	74,056
		149,667	142,200	135,936
Interest expense	5	59,147	60,783	62,348
Fair value gains	6	230,000	240,000	121,490
<b>Net income and comprehensive income</b>		<b>\$ 320,520</b>	<b>\$ 321,417</b>	<b>\$ 195,078</b>

*See accompanying notes to the financial statements.*

## Statement of Changes in Net Assets

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Year ended December 31 (CDN\$)	2013	2012	2011
		(Unaudited)	(Unaudited)
Net assets, beginning of year	983,103	687,492	513,883
Net income and comprehensive income	320,520	321,417	195,078
Distributions	(62,216)	(25,806)	(21,469)
<b>Net assets, end of year</b>	<b>1,241,407</b>	<b>983,103</b>	<b>687,492</b>

*See accompanying notes to the financial statements.*

## 335 Barrie Street, Kingston Ontario

### Statement of Cash Flows

Year ended December 31 (CDN\$)	2013	2012	2011
		(Unaudited)	(Unaudited)
<b>Operating activities</b>			
Net income	320,520	321,417	195,078
Adjustments:			
Fair value gains	(230,000)	(240,000)	(121,490)
Working capital	8,339	(20,607)	(166)
Cash flows provided by operating activities	98,859	60,810	73,422
<b>Investing activities</b>			
Capital expenditures	-	-	(18,510)
Cash flows used in investing activities	-	-	(18,510)
<b>Financing activities</b>			
Property debt repayments	(36,643)	(35,004)	(33,443)
Distributions	(62,216)	(25,806)	(21,469)
Cash flows used in financing activities	(98,859)	(60,810)	(54,912)
Increase (decrease) increase in cash	-	-	-
Cash, beginning of year	-	-	-
<b>Cash, end of year</b>	-	-	-

*See accompanying notes to the financial statements.*

# 335 Barrie Street, Kingston Ontario

## Notes to the Financial Statements

December 31, 2013

### NOTE 1: GENERAL

These financial statements represent the assets, liabilities, revenues and expenses of the 335 Barrie Street, Kingston, Ontario (the "Property") and do not include all the assets, liabilities, revenues or expenses of Q4 Realty Inc. (the "Owner"). The Property is owned 100% by the Owner.

The principal business of the Property is to earn rental income from its residential and commercial tenants.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements of the Property are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### (b) Basis of presentation

The financial statements are prepared on a going concern basis and have been presented in Canadian dollars. The accounting policies set out below have been applied consistently in all material respects.

The principal accounting policies are set out below.

#### (c) Investment property

Investment property includes property held to earn rental income or for capital appreciation or both. Investment property is carried at fair value, determined based on available market evidence, at the balance sheet date. Related fair value gains and losses are recorded in net income in the year in which they arise.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of the Property.

#### (d) Revenue recognition

The Property has retained substantially all of the risks and benefits of ownership of its investment property and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Additional rent includes recoveries of operating expenses, including property taxes, for commercial tenants only. Additional rent is recognized in the period that recoverable costs are chargeable to tenants.

#### (e) Financial instruments

The following summarizes the Property's classification and measurement of financial instruments:

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<b>Financial assets and liabilities</b>	<b>Classification</b>	<b>Measurement</b>
Accounts receivable	Loans and receivables	Amortized cost
Property debt	Other liabilities	Amortized cost

#### (f) Critical accounting estimates and assumptions

The Property makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ from estimates. The critical estimates and assumptions underlying the valuation of investment property are set out in Note 4.

#### (g) Cash

The Property does not have a separate bank account. Any cash receipts or disbursements are deposited to or made from a bank account of the Owner on behalf of the Property and are recorded as contributions or distributions, respectively, in net assets.

**335 Barrie Street, Kingston Ontario**  
**Notes to the Financial Statements**  
**December 31, 2013**

**(h) Income taxes**

The Property is not subject to Federal or Provincial income taxes; accordingly, the Property makes no provision for income taxes in its financial statements. Taxable income or loss is reportable by the Owner.

**(i) Fair Value Measurement**

The Property adopted IFRS 13, "Fair Value Measurement" effective January 1, 2013. IFRS 13 establishes a single source for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and required disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRS's require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. The Property has assessed its fair value measurement framework and concluded that no change to the current treatment was required.

**NOTE 3: FUTURE ACCOUNTING CHANGES**

**Financial Instruments**

This standard, which replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. While determination is made at initial recognition, classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The date of application has not been determined.

**Levies**

IFRIC 21, "Levies" clarifies that a liability for a levy is recognized when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

Management will continue to evaluate the impact of these standards.

**NOTE 4: INVESTMENT PROPERTY**

	Dec. 31, 2013	Dec. 31, 2012 (Unaudited)
Balance at beginning of year	\$ 2,270,000	\$ 2,030,000
Fair value gains	230,000	240,000
Balance at end of year	\$ 2,500,000	\$ 2,270,000

The fair value of the Property is determined based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflow in respect of such leases. Fair values were determined by applying an overall capitalization rate to the Property's net operating income. The fair value of the Property was determined by Management.

**335 Barrie Street, Kingston Ontario**  
**Notes to the Financial Statements**  
**December 31, 2013**

**NOTE 5: PROPERTY DEBT**

At December 31, 2013, the balance of the property debt was \$ 1,272,526 (December 31, 2012 - \$1,309,169(unaudited)). The debt is secured by the Property, bears interest at 4.62% and matures on June 1, 2014.

For the year ended December 31, 2013, interest expense of \$59,147 (December 31, 2012 - \$60,783; December 31, 2011 - \$62,438 (unaudited)) was recorded on the property debt.

The fair value of property debt is determined by discounting contractual principal and interest payments at estimated current market interest rates for the instrument. Current market interest rates are determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As of December 31, 2013, the fair value of property debt is \$1,275,000 (December 31, 2012 - \$1,290,000 (unaudited)).

The Property is exposed to interest rate risk on refinancing of the property debt. It manages this risk by using long-term borrowings at fixed rates. A 50 basis point change in the interest rate on the property debt as of the date of refinancing the property debt would cause a \$6,400 change in interest expense.

**NOTE 6: FAIR VALUE GAINS**

The Property recognized fair value gains of \$230,000 (December 31, 2012 - \$240,000 (unaudited); December 31, 2011 - \$121, 490(unaudited)). Fair value gains and losses are the result of movements in projected net operating income and capitalization rates.

**NOTE 7: PROPERTY REVENUES**

The following property revenues were earned during the year:

	<b>Dec. 31, 2013</b>	Dec. 31, 2012	Dec. 31, 2011
		(Unaudited)	(Unaudited)
Residential rent	\$ 191,534	\$ 180,659	\$ 174,977
Commercial rent	13,140	13,140	13,140
Additional rent	21,314	19,390	17,645
Parking	5,480	4,603	4,230
	<b>\$ 231,468</b>	<b>\$ 217,792</b>	<b>\$ 209,992</b>

**NOTE 8: PROPERTY EXPENSES**

The following property expenses were incurred during the year.

	<b>Dec. 31, 2013</b>	Dec. 31, 2012	Dec. 31, 2011
		(Unaudited)	(Unaudited)
Repairs and maintenance	\$ 6,797	\$ 6,290	\$ 6,437
Utilities	3,290	2,723	3,073
Management services	16,165	15,508	15,157
Payroll	16,869	15,376	14,392
Insurance	4,878	4,810	4,830
Property tax	33,802	30,884	30,167
	<b>\$ 81,801</b>	<b>\$ 75,592</b>	<b>\$ 74,056</b>

**335 Barrie Street, Kingston Ontario**  
**Notes to the Financial Statements**  
**December 31, 2013**

**NOTE 9: RELATED PARTY TRANSACTIONS**

The following related party amounts were earned or incurred during the periods.

	<b>Dec. 31, 2013</b>	Dec. 31, 2012	Dec. 31, 2011
		(Unaudited)	(Unaudited)
Commercial rent	\$ 5,930	\$ 5,930	\$ 5,930
Additional rent	11,033	9,984	9,036
Management services	16,165	15,508	15,157
Payroll	16,869	15,376	14,392

All related party amounts were earned from or incurred to an affiliate of the Owner.

Accounts receivable in the amounts of \$12,280 (December 31, 2012; \$20,700 (unaudited) were owing from an affiliate of the owner for commercial and additional rents.

**NOTE 10: SUBSEQUENT EVENT**

The Owner entered into an Agreement of Purchase and Sale on January 9, 2014 with an arm's length party to sell the Property at a price of \$2,500,000, subject to customary adjustments. The transaction is expected to close in 2014.

**NOTE 11: AUTHORIZATION AND APPROVAL**

The Financial Statements along with the notes have been approved and authorized for issue by Management on March 21, 2014.

**SCHEDULE C**

**PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND  
COMPREHENSIVE INCOME (LOSS) OF CHC**

**CHC REALTY CAPITAL CORP.**  
**Pro Forma Statement of Income (Loss) and Comprehensive Income (Loss)**  
**For the nine months ended September 30, 2014**  
**(Unaudited)**

	CHC Realty Capital Corp.	335 Barrie Street Kingston, Ontario	3170-3190 Donnelly Street Windsor, Ontario	Note Ref.	Pro Forma Adjustments	Pro Forma Consolidated
	\$	Note 2 \$	Note 3 \$		\$	\$
<b>Revenue</b>						
Rent	150,714	75,434	494,615		-	720,763
Recoveries and other income	12,908	-	-		-	12,908
Interest income	13,082	-	-		-	13,082
	176,704	75,434	494,615		-	746,753
<b>Expenses</b>						
Property operating expenses	81,692	38,691	349,033	4(c)	19,785	489,201
General and administrative expenses	367,549	-	-		-	367,549
Acquisition transaction costs	324,384	-	-		-	324,384
Interest on mortgages payable	39,736	14,500	46,345	4(d)	47,855	148,436
	813,361	53,191	395,378		67,639	1,329,570
Fair Value Gains	-	-	579,680		-	579,680
Income Tax Expense (Recovery)	-	-	-	4(e)	(831)	(831)
Net Income (Loss) and Comprehensive Income (Loss)	(636,657)	22,243	678,917		(66,808)	(2,306)

**CHC REALTY CAPITAL CORP.**  
**Pro Forma Statement of Income (Loss) and Comprehensive Income (Loss)**  
**For the period from April 12, 2013 (date of incorporation) to December 31, 2013**  
**(Unaudited)**

	CHC Realty Capital Corp.	335 Barrie Street Kingston, Ontario	3170-3190 Donnelly Street Windsor, Ontario	Note Ref.	Pro Forma Adjustments	Pro Forma Consolidated
	\$	Note 2 \$	Note 3 \$		\$	\$
<b>Revenue</b>						
Rent	-	154,700	451,272		-	605,972
Recoveries and other income	-	-	-		-	-
Interest income	-	-	-		-	-
	-	154,700	451,272		-	605,972
<b>Expenses</b>						
Property operating expenses	-	50,869	299,943	4(c)	17,208	368,020
Interest on mortgages payable	-	42,386	50,725	4(d)	47,198	140,309
Compensation expense	309,000	-	-		-	309,000
General and administrative expenses	10,162	-	-		-	10,162
Organization Costs	5,000	-	-		-	5,000
	324,162	93,255	350,668		64,406	832,491
Fair Value Gains	-	230,000	481,086		-	711,086
Income Tax Expense (Recovery)	-	-	-	4(e)	128,410	128,410
Net Income (Loss) and Comprehensive Income (Loss)	(324,162)	291,445	581,690		(192,816)	356,157

**CHC REALTY CAPITAL CORP.**  
**Notes to Pro Forma Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**For the periods from April 12, 2013 (date of incorporation) to December 31, 2013**  
**and the nine months ended September 30, 2014**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) of CHC Realty Capital Corp. (“CHC”) have been prepared by management and give effect to the significant acquisitions described in notes 2 and 3 (the “Acquisitions”) as if they occurred on April 12, 2013 (date of incorporation).

The unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) have been prepared using information derived from and should be read in conjunction with the following:

1. the unaudited interim consolidated financial statements of CHC as at and for the nine months ended September 30, 2014;
2. the audited consolidated financial statements of CHC as at and for the period from April 12, 2013 (incorporation) to December 31, 2013;
3. the audited financial statements of the student housing and commercial property located at 335 Barrie Street in Kingston, Ontario (the “QT Property”) as at and for the year ended December 31, 2013; and
4. the audited financial statements of the student housing property located at 3170 and 3190 Donnelly Street in Windsor, Ontario (the “Property”) as at and for the year ended July 31, 2014.

The unaudited pro forma consolidated financial statements have been prepared using accounting policies that are in accordance with International Financial Reporting Standards (“IFRS”) and, in the opinion of management, include all adjustments necessary for fair presentation.

The unaudited pro forma consolidated financial statements have been prepared for illustration purposes only and may not be indicative of the results of CHC had the Acquisitions been in effect as at April 12, 2013.

**2. 335 Barrie Street, Kingston, Ontario**

The QT Property was acquired April 3, 2014. The financial information presented in the pro forma consolidated statements of income (loss) and comprehensive income (loss) for the nine month period ended September 30, 2014 represents the operations of the QT Property from January 1, 2014 to April 2, 2014 (the period before acquisition) so as to reflect a full nine months of operations.

The financial information presented in the pro forma consolidated statements of income (loss) and comprehensive income (loss) for the period from April 12, 2013 (date of incorporation) to December 31, 2013 have been derived from the audited financial statements of the QT Property as follows:

	Year ended Dec. 31, 2013	Less: Period from Jan. 1, 2013 to April 11, 2013	Period from April 12, 2013 to Dec. 31, 2013
Rent	231,468	76,768	154,700
Property operating expenses	81,801	30,932	50,869
Interest on mortgages payable	59,147	16,761	42,386
Fair value gains	230,000	-	230,000

### 3. 3170-3190 Donnelly Street, Windsor, Ontario

The financial information presented in the pro forma consolidated statements of income (loss) and comprehensive income (loss) for the nine month period ended September 30, 2014 have been derived from the audited financial statements of the Property as follows to capture the operations prior to the acquisition date of September 11, 2014:

	Year ended July 31, 2014	Less: Period from Aug. 1, 2013 to Dec. 31, 2013	Add: Period from Aug. 1, 2014 to Sep. 10, 2014	Period from Jan. 1, 2014 to Sep. 10, 2014
Rent	626,313	253,722	122,024	494,615
Property operating expenses	482,334	165,778	32,477	349,033
Interest on mortgages payable	68,389	29,304	7,260	46,345
Fair value gains	579,680	-	-	579,680

The financial information presented in the pro forma consolidated statements of income (loss) and comprehensive income (loss) for the period from April 12, 2013 (date of incorporation) to December 31, 2013 have been derived from the audited financial statements of the Property as follows:

	Year ended July 31, 2014	Less: Period from Jan. 1, 2014 to July 31, 2014	Add: Period from April 12, 2013 to July 31, 2013	Period from April 12, 2013 to Dec. 31, 2013
Rent	626,313	372,591	197,550	451,272
Property operating expenses	482,334	316,566	134,175	299,943
Interest on mortgages payable	68,389	39,262	21,598	50,725
Fair value gains	579,680	579,680	481,086	481,086

### 4. Pro Forma Assumptions and Adjustments

The unaudited pro forma consolidated financial statements give effect to the following transactions:

- (a) CHC acquired the QT Property from Q4 Realty Inc. (the "Vendor") on April 3, 2014 pursuant to the terms of a purchase and sale agreement dated January 9, 2014 between CHC and the Vendor. The purchase of the QT Property served as CHC's Qualifying Transaction pursuant to Policy 2.4 of the TSX Venture Exchange. Pursuant to the acquisition of the QT Property, CHC acquired the QT Property for an aggregate purchase price of \$2,500,000. The purchase price was satisfied by way of the assumption of an existing mortgage secured by the QT Property in the amount of \$1,260,253 and the payment of the balance of the purchase price in the amount of \$1,239,747 in cash from CHC's existing funds.

- (b) CHC acquired the Property from 2252982 Ontario Limited (the “Windsor Vendor”) on September 11, 2014 pursuant to the terms of a purchase and sale agreement dated May 28, 2014 between CHC and the Windsor Vendor. Pursuant to the acquisition of the Property, CHC acquired the Property for an aggregate purchase price of \$5,900,000. The purchase price was satisfied by way of proceeds from entering into a new \$4,000,000 mortgage and the payment of the balance of the purchase price in the amount of \$1,900,000 in cash from CHC’s existing funds.
- (c) Following the completion of the acquisition of the QT Property, CHC retained a third party property manager (the “Property Manager”) to manage the QT Property pursuant to a property management agreement. Under the terms of the property management agreement, the Property Manager will receive a management fee (the “Management Fee”) in the amount of 8.0% of net effective rent (gross rental revenue less vacancies) from the residential portion of the QT Property (commercial space rent not included). A pro forma adjustment in the amount of \$843 has been made to reflect the difference between the expense recorded for management services in the financial statements of the QT Property and the amount that would be payable in respect of the Management Fee based on the net effective rent from the residential portion of the QT Property recorded in the consolidated financial statements of the QT Property for the period from April 12, 2013 (date of incorporation) to December 31, 2013. There is no equivalent adjustment for the nine month period ended September 30, 2014.

Following the completion of the acquisition of the Property, CHC retained a third party property manager (the “Windsor Property Manager”) to manage the Property pursuant to a property management agreement. Under the terms of the property management agreement, the Windsor Property Manager will receive a management fee (the “Windsor Management Fee”) in the amount of 4.0% of net effective rent (gross rental revenue less vacancies). Pro forma adjustments in the amounts of \$18,051 for the period from April 12, 2013 (date of incorporation) to December 31, 2013, and \$19,785 for the nine month period ended September 30, 2014 have been made to reflect the difference between the expense recorded for management services in the financial statements of the Property and the amount that would be payable in respect of the Management Fee based on the net effective rent of the Property recorded in the consolidated financial statements of CHC.

- (d) Upon completion of the acquisition of the Property, CHC entered into a mortgage for the Property in the amount of \$4,000,000. The mortgage has a 5-year term and bears interest at 3.47%. Pro forma adjustments in the amount of \$47,198 for the period from April 12, 2013 (date of incorporation) to December 31, 2013, and \$47,855 for the nine month period ended September 30, 2014, have been made to reflect the difference between the expense recorded for interest in the financial statements of the Property and the amount that would be payable in respect of interest costs in the consolidated financial statements of CHC.
- (e) The pro forma effective income tax rate applicable to the consolidated operations will be approximately 26.5%. A pro forma adjustment has been reflected to tax effect the pro forma net income (loss) before tax for the period from April 12, 2013 (date of incorporation) to December 31, 2013, and for the nine month period ended September 30, 2014.