

MaRS Discovery District

Financial Statements

March 31, 2015



June 9, 2015

Independent Auditor's Report

To the Board of Directors of MaRS Discovery District

We have audited the accompanying financial statements of MaRS Discovery District, which comprise the statement of financial position as at March 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 Canadian accounting standards for not-for-profit organizations, 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MaRS Discovery District as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

MaRS Discovery District

Statement of Financial Position

As at March 31, 2015

(in thousands of dollars, unless otherwise stated)

	2015	2014
Assets		
Current assets		
Cash (note 3)	\$4,490	\$8,366
Restricted cash (note 3)	29,474	35,914
Receivables and prepayments (note 4)	1,790	1,466
Due from related parties (note 5)	547	513
	<hr/>	<hr/>
	36,301	46,259
Due from related parties (note 5)	332	327
Investment in Cogniciti Inc. (note 6)	90	90
Investment in related party (note 7)	23,705	510
Capital assets (note 10)	79,999	107,427
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	\$140,427	\$154,613
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$6,115	\$7,260
Loans and mortgages payable (note 11)	4,078	4,308
Restricted contributions (note 12)	19,876	26,631
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	30,069	38,199
Loans and mortgages payable (note 11)	16,101	16,784
Deferred capital contributions (note 13)	56,617	59,374
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	\$102,787	\$114,357
Net Assets		
Unrestricted	\$3,178	\$7,606
Investment in capital assets and related party	26,908	26,961
Restricted endowment (note 14)	7,554	5,689
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	\$37,640	\$40,256
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	\$140,427	\$154,613
Contingencies and commitments (note 16)		

Approved by the Board of Directors

_____ Director _____ Director

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District

Statement of Operations

For the year ended March 31, 2015

(in thousands of dollars, unless otherwise stated)

	2015	2014
Revenues		
Rental	\$10,675	\$10,763
Restricted provincial grants (note 12)	15,606	13,679
Restricted donations MaRS programs (note 12)	4,253	3,467
Amortization of deferred capital contributions (note 13)	2,757	2,742
Event and services fees	1,743	1,988
Other fees and interest	1,445	979
	<hr/>	<hr/>
	36,479	33,618
Partner payments (note 12)	9,740	10,899
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	\$46,219	\$44,517
Expenses		
Employees and contractors	\$15,151	\$14,495
Property operating	6,024	6,052
Amortization	4,975	4,891
Program operating	4,463	3,187
Outsourced services	2,928	2,549
Supplies	1,107	996
Interest	627	843
Administration and governance	529	568
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	35,804	33,581
Partner payments (note 12)	9,740	10,899
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	\$45,544	\$44,480
Excess of revenues over expenses for the year	\$675	\$37
Loss of related party (note 7)	(5,156)	-
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Net (loss) income for the year	(\$4,481)	\$37

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District
Statement of Changes in Net Assets
For the year ended March 31, 2015

(in thousands of dollars, unless otherwise stated)

				2015
	Investments in capital assets and related party	Unrestricted	Restricted endowment	Total
Net assets - Beginning of year	\$26,961	\$7,606	\$5,689	\$40,256
Reclassification, investment in related party	510	(510)	-	-
Cash contributed to related party (note 7)	5,000	(5,000)	-	-
Change in net investment in capital assets	(407)	407	-	-
Endowment contributions (note 14)	-	-	1,865	1,865
Net (loss) income for the year	(5,156)	675	-	(4,481)
Net assets - End of year	\$26,908	\$3,178	\$7,554	\$37,640
				2014
	Investment in capital assets	Unrestricted	Restricted endowment	Total
Net assets - Beginning of year	\$25,836	\$8,694	\$4,889	\$39,419
Change in net investment in capital assets	1,125	(1,125)	-	-
Endowment contributions (note 14)	-	-	875	875
Deferred endowment interest income - net of expenditures (note 14)	-	-	(75)	(75)
Excess of revenues over expenses for the year	-	37	-	37
Net assets - End of year	\$26,961	\$7,606	\$5,689	\$40,256

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District

Statement of Cash Flows

For the year ended March 31, 2015

(in thousands of dollars, unless otherwise stated)

	2015	2014
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(\$4,481)	\$37
Items not affecting cash		
Loss of related party	5,156	-
Amortization of capital assets	4,975	4,891
Amortization of deferred capital contributions	(2,757)	(2,742)
Amortization of restricted grants, donations and partner payments	(29,598)	(28,045)
Restricted funds received	22,843	30,388
Changes in working capital balances (note 17)	(1,508)	3,289
	<u>(\$5,370)</u>	<u>\$7,818</u>
Financing activities		
Receipt of endowment	\$1,865	\$875
Repayment of loans and mortgages (note 11)	(913)	(811)
	<u>\$952</u>	<u>\$64</u>
Investing activities		
Investment in related parties (note 7)	(\$5,000)	-
Net change in restricted cash	6,440	(\$5,666)
Redemption of investment	-	1,464
Additions to capital assets	(898)	(2,464)
	<u>\$542</u>	<u>(\$6,666)</u>
(Decrease) increase in cash during the year	<u>(\$3,876)</u>	<u>\$1,216</u>
Cash - Beginning of year	<u>8,366</u>	<u>7,150</u>
Cash - End of year	<u>\$4,490</u>	<u>\$8,366</u>
Supplementary disclosure:		
Contribution of capital assets to related party	\$23,351	-

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District

Notes to Financial Statements

March 31, 2015

(in thousands of dollars, unless otherwise stated)

1 Description of organization

MaRS Discovery District (MaRS or the organization) is an organization without share capital, incorporated on August 27, 2001 under the laws of Canada. In October 2014, MaRS was granted continuance under the Canada Not-for-profit Corporations Act. As a registered charity (87668 2717 RR0001) under the Income Tax Act, the organization is exempt from income taxes. The organization was established to develop a world-class innovation and convergence centre in Toronto dedicated to improving Canada's social and economic prosperity from its science, technology and social innovations. MaRS' core programs include business advisory services, education and market intelligence to attract and equip Canadian innovators with the skills, tools and networks they need to thrive and grow in the global knowledge economy. MaRS also works to scale and diffuse innovation through collaborative initiatives that open markets and create new solutions for start-ups. MaRS administers partner payment grants on behalf of the provincial and federal governments by providing flow-through grant funding.

Real estate operations of the MaRS Centre buildings, located at 101 College Street in Toronto, Ontario, include tenant and collaboration centre rental operations and some information technology services, the net contribution from which supports the organization's core programs.

Related entities

In 2002, the organization was appointed administrator of the MaRS Development Trust (the Trust). The Trust's purpose was to issue \$100,000 in bonds to finance the property development of the Toronto Medical Discovery Tower facility (the project), situated at the corner of College and Elizabeth Streets in Toronto, Ontario, for University Health Network (UHN), to operate the project and act as landlord under the UHN lease agreement. Under the UHN lease agreement, the project has been leased in its entirety to UHN pursuant to the 30-year lease dated December 12, 2002, with the Trust receiving finance income recognized over the term of the lease in a manner that produces a constant rate of return on the investment in the lease. As beneficiary of the Trust, MaRS will assume the ownership of the project upon full repayment of the bonds in 2032.

On July 15, 2011, MaRS became the sole unitholder and sole beneficiary of the MaRS Phase 2 Investment Trust (Phase 2 Trust) (note 7). Phase 2 Trust's purpose is to further the MaRS vision. The core activity is the development and management of the MaRS Centre Phase 2 building (Phase 2 Project), a 20-storey state-of-the-art laboratory and office building situated at the corner of University Avenue and College Street in Toronto, Ontario. Along with the adjacent MaRS Centre Buildings located at 101 College Street, the Phase 2 Project will become a world-class convergence centre dedicated to improving commercial outcomes from Canada's science, technology and social innovations. The Phase 2 Project was financed through a loan from Ontario Infrastructure and Lands Corporation (Infrastructure Ontario). The loan was transferred by Infrastructure Ontario to the Ministry of Research and Innovation (MRI) in March of 2015. As part of the financing arrangements for the Phase 2 Project, MaRS has provided a limited recourse guarantee backed by a third-ranking assignment on its land and building.

The organization holds 100% interest in MaRS Phase 2 Inc. (Phase 2 Inc.). Phase 2 Inc. is an Ontario for-profit company whose sole activity is to act as Trustee for Phase 2 Trust. The directors of Phase 2 Inc. consist of members of management of the organization. Phase 2 Inc. in its capacity as trustee executes contracts and other legal and financial instruments for Phase 2 Trust, but does not record any financial activity of its own.

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(in thousands of dollars, unless otherwise stated)

The organization controls MaRS Investment Accelerator Fund Inc. (IAF). IAF is an Ontario not-for-profit organization that administers the Investment Accelerator Fund Program on behalf of the Province of Ontario (note 8). IAF's Board of Directors is made up of a sub-set of the Board of Directors of MaRS.

The organization controls MaRS VX, a federal not-for-profit organization incorporated on May 16, 2013, that operates the Social Venture Exchange (SVX) under the regulations of the Ontario Securities Commission (note 9). Investor funds do not flow through MaRS VX. The directors of MaRS VX consist of members of management of the organization.

MaRS Discovery Services Inc. (MDSI) is an Ontario not-for-profit organization. The directors of MDSI consist of members of management of MaRS and an adviser of the organization. MDSI's sole activity in the year was to hold an investment in JOLT Fund L.P. JOLT Fund L.P. is a limited partnership of private investors that invests in promising start-up companies developing products or services in mobile and digital technologies. These investee companies participate in the JOLT program, an education and mentoring program offered by MaRS.

MDSI also holds 100% of MaRS 101 Ventures Inc. (MaRS 101), an Ontario for-profit company that acts as the general partner to JOLT Fund L.P. MaRS 101's operating revenues and expenses are immaterial, as it is supported through the work of volunteers. Additionally, MDSI holds 100% of MaRS Discovery Enterprises Inc. (MDEI), an Ontario for-profit company whose sole activity in the year was to hold an investment in Cogniciti.

2 Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

The significant accounting policies are as follows:

Revenue recognition

Rental revenue

The organization retains substantially all of the benefits and risks of ownership of its income-producing properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants under lease agreements, including property tax and operating cost recoveries, parking income and incidental income. The organization reports base rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized in income in equal periodic amounts over the term of the lease. The amount by which straight-line rental revenue exceeds or is lower than base rents collected in accordance with the lease agreements is included in other receivables and prepayments.

Contributions

The organization follows the deferral method of accounting for contributions, which include grants and donations. Under the deferral method, unrestricted contributions are recognized as revenue when received. Restricted contributions are deferred and recognized as revenue when the related expenses are incurred. Capital grants are deferred and amortized on a basis corresponding with the amortization rate for the related capital asset. Externally restricted endowment contributions are recognized as direct increases in net assets when recorded in the accounts.

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(in thousands of dollars, unless otherwise stated)

The organization has not recognized contributions of materials or services in the statement of operations.

Interest income

Restricted interest income, including endowment interest income, is deferred and recognized as revenue in the year in which the related expenses are incurred. Unrestricted interest income is recognized as revenue when earned.

Other revenue

Event and services fees are recognized when the services are provided. Sponsorship revenue is recognized over the sponsorship period.

Capital assets

Capital assets are recorded at cost, net of accumulated amortization and any impairments. An impairment equal to the excess of the carrying value over any residual value is recognized for capital assets when the asset no longer has any long-term service potential to the organization.

Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	30 years
Improvements	5 years
Equipment under capital lease	3 years
Furniture and fixtures	10 years
Equipment	2 - 10 years
Software and network equipment	3 - 5 years

Tenant improvements

Inducement payments to tenants for which the tenant has no obligation to make leasehold improvements to the leased space are amortized against rental revenue on a straight-line basis over the term of the applicable lease. These amounts are included in tenant receivables on the statement of financial position.

Leasehold improvements made by the organization on the tenants' behalf are amortized on a straight-line basis over the useful life of the improvement to amortization expense. These amounts are included in capital assets on the statement of financial position as improvements (note 10).

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in determining allowance for doubtful accounts, useful life and recoverability of capital assets, recoverability of investments in related parties and internal allocations.

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(in thousands of dollars, unless otherwise stated)

Investments

For controlled, profit-oriented subsidiaries, such as Phase 2 Inc. and Phase 2 Trust, MaRS has elected not to consolidate and accounts for them using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include MaRS' pro rata share of the earnings (loss) of the subsidiary, capital transactions and profit distributions (note 7).

For controlled, not-for-profit organizations, such as MaRS Investment Accelerator Fund Inc. and MaRS VX, MaRS has elected not to consolidate but has disclosed their financial information in notes 8 and 9.

Other investments are recorded at cost.

Financial instruments

MaRS initially records its financial assets and financial liabilities at fair value. MaRS subsequently measures all of its financial assets and financial liabilities at amortized cost. Financial assets and liabilities include cash, restricted cash, receivables, accounts payable and accrued liabilities, loans and mortgages payable. Financial assets are tested for impairment at the end of each reporting period where there are indicators that the assets may be impaired. Any impairment loss is recognized in the statement of operations. Transaction costs are capitalized and amortized on a straight-line basis over the useful life of the related financial instrument.

3 Cash and restricted cash

Cash represents cash in the bank and savings accounts without restrictions. Restricted cash comprises cash in the bank and savings accounts and is restricted for future use to fund restricted program grant obligations (note 12) and restricted endowment (note 14).

4 Receivables and prepayments

	2015	2014
Tenant, grants and other receivables net of allowance for doubtful accounts of \$690 (2014 - \$775)	\$1,355	\$892
Prepaid expenses	315	336
Tenant improvements and straight-line rent - net of accumulated amortization of \$336 (2014 - \$321)	120	238
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	\$1,790	\$1,466

MaRS Discovery District

Notes to Financial Statements

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(in thousands of dollars, unless otherwise stated)

5 Related party transactions and balances

The following amounts were due from related parties, recorded at the exchange amount, at the end of the year.

	2015	2014
Current (non-interest bearing)		
Due from Phase 2 Trust (i)	\$184	\$311
Due from IAF (ii)	338	11
Due from MaRS VX (iii)	25	191
	<u>\$547</u>	<u>\$513</u>
Non-current		
Subordinated loan due from MaRS VX (iii)	\$70	\$70
Loan due from MDSI (iv)	262	257
	<u>\$332</u>	<u>\$327</u>

- i) During the year, the organization provided services to Phase 2 Trust in the amount of \$844 (2014 - \$270) for project management and accounting services and received services from Phase 2 Trust in the amount of \$88 (2014 - \$nil) for building operations.
- ii) During the year, the organization provided services to IAF in the amount of \$329 (2014 - \$173). The services provided included rent, information technology support, market intelligence, accounting, human resources and other general and administrative expenses.
- iii) During the year, the organization paid an operating fee of \$140 (2014 - \$300) to MaRS VX to operate the SVX and provided services to MaRS VX in the amount of \$95 (2014 - \$216). The services provided included accounting and other general and administrative expenses.

MaRS made a loan of \$70 to MaRS VX in March 2014. The loan is non-interest bearing and has no pre-determined payment schedule. A subordinated agreement was entered into under National Instrument 31-103 for this loan to exclude it from the calculation of MaRS VX's minimum working capital. As such repayments can only be made with prior notice to the Securities Regulatory Authority. There is no current intent of either MaRS or MaRS VX to have the loan repaid within the next year.

- iv) The loan due from MDSI bears interest at 2% per annum and has a repayment date of June 2017.

6 Investment in Cogniciti Inc.

MaRS holds directly a 4% interest (carried at cost of \$90) in Cogniciti Inc. MaRS also holds indirectly through MDEI a 14% interest. Cogniciti Inc. is a joint venture formed in 2009 through a partnership between Baycrest Centre for Geriatric Care (Baycrest), one of the world's leading cognitive science institutes and MaRS. Baycrest holds an 82% interest in Cogniciti.

MaRS Discovery District

Notes to Financial Statements

March 31, 2015

(in thousands of dollars, unless otherwise stated)

7 Investment in related party

The organization's interests in Phase 2 Inc and Phase 2 Trust are accounted for using the equity method with a continuity of the investment as follows:

	2015	2014
Balance, beginning of year	\$510	\$510
Loss of related party (year ended December 31 st)	(5,156)	-
	<u>(\$4,646)</u>	<u>\$510</u>
Cash contribution	5,000	-
Contribution of land (note 10)	23,351	-
Balance, end of year	<u>\$23,705</u>	<u>\$510</u>

MaRS and Phase 2 Trust do not have coterminous year-ends. The income (loss) of Phase 2 Trust reported above is for Phase 2 Trust's fiscal year ended December 31, 2014. Phase 2 Trust had no income (loss) in its fiscal year ended December 31, 2013.

In March 2015, Phase 2 Trust, MaRS and the Province of Ontario finalized a refinancing plan for Phase 2 Trust and the Phase 2 Project. As part of this agreement, MaRS provided a cash capital contribution of \$5 million as well as the land, valued at its carrying value of \$23,351, that the Phase 2 Project is built on.

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows for the Phase 2 Trust's fiscal years ending December 31 are as follows:

	Dec 31, 2014	Dec 31, 2013
Assets	\$224,411	\$219,401
Liabilities	\$229,057	\$218,891
Unitholder's equity	(\$4,646)	\$510
Revenue	\$13,861	-
Expenses	\$19,017	-
Cash flow from operating activities	(\$5,693)	(\$12,172)
Cash flow from financing activities	\$34,826	\$56,340
Cash flow from investing activities	(\$28,605)	(\$44,989)

During the period January 1, 2015 to March 31, 2015, Phase 2 Trust had revenue of \$4.3 million, expenses of \$6.1 million, cash flow from operating activities of (\$1.1) million, cash flow from financing activities of \$96.8 million, and cash flow from investing activities of (\$90.4) million. At March 31, 2015, Phase 2 Trust had assets of \$319.5 million, liabilities of \$297.7 million, and unitholder's equity of \$21.8 million.

8 MaRS Investment Accelerator Fund Inc.

Funded by the Province of Ontario, the IAF is a seed fund that assists emerging Ontario technology companies to bring their products and services to market. The IAF administers the investment of up to \$500 in early stage, privately-held companies, with no significant revenue or institutional investment, that have the potential to be global leaders in their field and provide sustainable economic benefits to Ontario. The IAF also provides a comprehensive platform of resources, people, connections and funding that entrepreneurs and innovators can

MaRS Discovery District

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(in thousands of dollars, unless otherwise stated)

access to launch their new ventures. The terms of funding permit the Province of Ontario, at its sole discretion, to request the return or transfer of any funds or investments held by IAF.

The IAF primarily makes investments in the form of convertible secured debentures, with maturity dates of 12 to 36 months from date of issuance. In the event of significant financing, acquisition or at the IAF's option, the convertible debenture may convert into equity instruments and conversion terms may include a share price discount.

The assets and liabilities as at March 31 and the revenues, expenses and cash flows for the years ending March 31 for MaRS IAF are as follows:

	2015	2014 (restated)
Assets	\$50,882	\$48,846
Liabilities	\$50,882	\$48,846
Revenues	\$5,939	\$12,856
Expenses	\$2,325	\$1,856
Investment (income) expenses	\$3,614	\$11,000
Cash flow from operating activities	(\$140)	\$1,102
Cash flow from financing activities	\$1,741	\$8,675
Cash flow from investing activities	(\$4,006)	(\$7,063)

The prior year comparative numbers have been restated to reflect the recognition that the organization delivers the programs for the Province of Ontario and holds the investments of the program on behalf of the Province of Ontario. The impact of restatement on the comparative figures is as follows:

- Amounts previously shown as net assets on the statement of financial position (restricted proceeds of \$8,234 and restricted net assets excluding proceeds of \$35,224) are now disclosed as liabilities (restricted proceeds of \$8,234 and restricted program investments of \$35,224).
- The statement of operations was amended to include a "Movements in investments accruing to the Ministry" line item in the amount of \$10,741. As a result of this change, investment (income) expenses were amended from \$259 to \$11,000.
- There was no change to the cash flows from operating, financing or investing activities.

9 MaRS VX

MaRS VX's current sole initiative is to operate the Social Venture Exchange (SVX). SVX, operating under the regulations of the Ontario Securities Commission, is Canada's first online, private investment platform connecting impact ventures and funds seeking investment to impact investors looking for debt and equity investment opportunities. The platform allows investors to search for and connect with ventures and funds that have been screened and reviewed for social and environmental impact, finances, management and governance and their investment offering. The ventures may include non-profits, co-operatives and for-profit corporations in sectors ranging from clean technology and sustainable food to health care and affordable housing. Investor funds do not flow through MaRS VX.

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(in thousands of dollars, unless otherwise stated)

The assets, liabilities and net assets as at March 31 and the revenues, expenses and cash flows for the years ending March 31 for MaRS VX are as follows:

	2015	2014
Assets	\$178	\$281
Liabilities	\$113	\$270
Net assets	\$65	\$11
Revenues	\$316	\$304
Expenses	\$263	\$292
Cash flow from operating activities	(\$102)	\$208
Cash flow from financing activities	-	\$70
Cash flow from investing activities	(\$42)	-

10 Capital assets

	2015		
	Cost	Accumulated Amortization	Net
Income-producing properties (i)			
Land	\$4,293		\$4,293
Building	105,675	\$32,925	72,750
Improvements	907	340	567
	<u>110,875</u>	<u>33,265</u>	<u>77,610</u>
Other assets			
Equipment under capital lease	88	79	9
Furniture and fixtures	1,733	1,552	181
Equipment	3,655	2,976	679
Software and network equipment	2,227	707	1,520
	<u>\$118,578</u>	<u>\$38,579</u>	<u>\$79,999</u>
	2014		
	Cost	Accumulated Amortization	Net
Income-producing properties (i)			
Land	\$4,293	-	\$4,293
Building	105,675	\$29,398	76,277
Improvements	736	325	411
	<u>110,704</u>	<u>29,723</u>	<u>80,981</u>
Land under development (ii)	23,351	-	23,351
Other assets			
Equipment under capital lease	88	49	39
Furniture and fixtures	1,738	1,354	384
Equipment	3,614	2,837	777
Software and network equipment	2,443	548	1,895
	<u>\$141,938</u>	<u>\$34,511</u>	<u>\$107,427</u>

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- i) MRI's loan to Phase 2 Trust for the Phase 2 Project is secured by a third-ranking assignment of the organization's freehold interest in its income-producing properties, behind the first and second ranking assignments (note 11).
- ii) The land under development was contributed by MaRS to the Phase 2 Trust in March 2015. The contribution was recorded at its carrying value of \$23.4 million which included the original purchase price and pre-development costs incurred by the organization for the Phase 2 Project prior to the establishment of the Phase 2 Trust.

In 2007, MaRS had entered into a 99-year lease of the land to be developed with Alexandria Real Estate Holdings Inc. (ARE or the lessee). The terms of the lease were such that MaRS had transferred all rights of the land to the lessee in return for the construction of a building and set payments. In 2011, Phase 2 Inc., as trustee to Phase 2 Trust, exercised an option in the amended ground lease with ARE to sublet the property to Phase 2 Trust, thereby enabling it to develop and manage this property. In early 2015, the Province of Ontario purchased ARE's interest in the Phase 2 building project. On March 30, 2015, the Province of Ontario transferred that interest in the Phase 2 Project to the Phase 2 Trust as part of the refinancing arrangements.

11 Loans and mortgages payable

The organization has the following amounts owing under its credit facilities:

	2015	2014
First mortgage loan, bearing interest at 3.0%, calculated semi-annually and amortized over 25 years; due November 2017	\$16,783	\$17,446
Fixed rate one-year term loan, bearing interest at prime plus 0.15%, calculated semi-annually and amortized over 20 years; due October 2015 (2014 - October 2014)	3,396	3,646
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	\$20,179	\$21,092
Less: Current portion	4,078	4,308
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	\$16,101	\$16,784
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The mortgage loan is secured by a first-ranking mortgage on the land and building, a first-ranking assignment of all rents and leases arising and a first-ranking general security agreement, whereby the bank holds all the assets of the organization as security until the loan is repaid. The one-year term loan is secured by a general security agreement and a second mortgage in the amount of \$10,000 on the land and building.

An additional unused revolving loan in the amount of \$5,000 is available for use, with no amounts drawn at year-end (2014 – \$nil).

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(in thousands of dollars, unless otherwise stated)

12 Restricted contributions

Restricted contributions are funds received in support of specified programs, projects or activities agreed upon by MaRS and various funders. MaRS receives restricted provincial grants from the Province of Ontario and restricted donations and other grants from philanthropic donors and other funders, such as the Government of Canada. MaRS also administers partner payment programs on behalf of the provincial and federal governments. These programs provide flow-through funding to the recipients.

	Province of Ontario	Other funders of MaRS programs	Partner Payments	Total
Balance, March 31, 2013	\$15,414	\$1,536	\$7,263	\$24,213
Funds received during the year	17,057	3,533	9,873	30,463
Recognized as revenue	(13,679)	(3,467)	(10,899)	(28,045)
Balance, March 31, 2014	18,792	1,602	6,237	26,631
Funds received during the year	12,100	3,927	6,817	22,844
Recognized as revenue	(15,606)	(4,253)	(9,740)	(29,599)
Balance, March 31, 2015	\$15,286	\$1,276	\$3,314	\$19,876

The Province of Ontario, through MRI, provides an annual operating grant to MaRS to develop and deliver programs as part of the Ontario Network of Excellence, a province-wide innovation system that supports the needs of entrepreneurs and emerging technology-based companies. These programs include advisory services, educational programs and the development of stronger talent, customer and capital networks for young Ontario companies. MaRS will also continue to develop and support multi-stakeholder innovation initiatives. The original Core Funding Agreement with the Province of Ontario was effective April 1, 2010 through March 31, 2013 and provided \$5 million of funding annually for a total of \$15 million during the term of the contract. In 2014, the funding agreement was extended for another three years to March 31, 2016 at the same annual rate of \$5 million or \$15 million total for the second term of the agreement.

The Province of Ontario programs also include Studio Y, the Business Acceleration Program, the Youth Business Acceleration Program, the Advanced Energy Centre and Data Catalyst.

The programs supported by other funders include the MaRS Centre for Impact Investing and the MaRS Solutions Lab.

The partner payments programs include the Premier's Summit Award and the Ontario Regional Innovations Centres (managed by the Business Acceleration Programs noted above).

MaRS Discovery District

Notes to Financial Statements

March 31, 2015

(in thousands of dollars, unless otherwise stated)

13 Deferred capital contributions

The organization was founded by leaders from Canada's academic, business and scientific communities. The College of Founders was established in 2001 and consists of individuals and corporations who made philanthropic donations of \$13,734 in order to provide the financial foundation required to implement the organization's vision. Contributions were also received from Ontario funders (Government of Ontario \$36,000, Ontario Innovation Trust \$10,000, and Toronto Biotechnology Commercialization Centre \$8,925) and from the Government of Canada (\$20,000). These funds were used to purchase capital assets.

	College of Founders	Ontario funders	Government of Canada	Total
Deferred capital contributions, March 31, 2013	\$5,429	\$41,631	\$15,056	\$62,116
Amortization of deferred capital contributions in the year ended March 31, 2014	(238)	(1,837)	(667)	(2,742)
Deferred capital contributions, March 31, 2014	\$5,191	\$39,794	\$14,389	\$59,374
Amortization of deferred capital contributions in the year ended March 31, 2015	(238)	(1,852)	(667)	(2,757)
Deferred capital contributions, March 31, 2015	\$4,953	\$37,942	\$13,722	\$56,617

14 Restricted endowment

The organization has received endowment gifts to support the MaRS Solutions Lab, a program dedicated to using new approaches to solve elusive societal problems. Interest earned on the endowment funds is restricted for use in the program and is included in restricted contributions (note 12). A continuity of the MaRS Solutions Lab endowment is as follows:

Balance, March 31, 2013	\$4,889
Contributions received	875
Allocation of interest earned pre March 31, 2013 to restricted contributions	(75)
Balance, March 31, 2014	\$5,689
Contributions received	1,865
Balance, March 31, 2015	\$7,554

15 Support from donors

The organization receives funding from donors and sponsors in the form of restricted one-time or multi-year grants (where the funds are spent for specific programs) and restricted endowment contributions (where the income earned on the contributions is spent for a specific program). Donor and sponsor funds received during the year:

	2015	2014
Restricted donations (note 12)	\$3,927	\$3,533
Endowment contributions (note 14)	1,865	875
	\$5,792	\$4,408

MaRS Discovery District

Notes to Financial Statements

March 31, 2015

(in thousands of dollars, unless otherwise stated)

16 Contingencies and commitments

MaRS has provided a limited recourse guarantee backed by a third-ranking assignment on its land and building to the lender for the Phase 2 Project (notes 1 and 10).

There is currently one remaining recipient of the Premier's Summit Award with an amount of \$389 yet to be disbursed. The disbursement is dependent on the researcher's funding needs. The awards must be fully disbursed within five years of signing the agreements.

The organization has a five-year maintenance agreement for network and telecommunication infrastructure from June 2014 to June 2019 of yearly amounts of \$177.

17 Changes in working capital balances

	2015	2014
Receivables and prepayments	(\$324)	\$549
Due from/to related parties	(39)	1,816
Accounts payable and accrued liabilities	(1,145)	924
	<hr/>	<hr/>
	(\$1,508)	\$3,289

18 Senior management remuneration

The salaries of the organization's senior management have been disclosed to the Province of Ontario, in accordance with the Public Sector Disclosure Act. The organization is subject to the Public Sector Disclosure Act by virtue of being a not-for-profit organization that received funding in excess of \$1,000 from the Government of Ontario.

19 Risk management

The organization is exposed to various financial risks through transactions in financial instruments.

Interest rate risk

The organization is exposed to interest rate risk with respect to its fixed rate debt because the fair value will fluctuate due to changes in market interest rates.

Liquidity risk

Liquidity risk is the risk the organization will not be able to meet its financial obligations as they come due.

MaRS Discovery District

Notes to Financial Statements

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(in thousands of dollars, unless otherwise stated)

Credit risk

The organization is exposed to credit risk in connection with accounts receivable from tenant leases or collaboration centre clients because of the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

20 Comparative figures

Certain comparative figures have been reclassified where necessary to conform with the current year's financial statement presentation.