

# **MaRS Discovery District**

Financial Statements

**March 31, 2013, March 31, 2012 and  
April 1, 2011**



June 14, 2013

## **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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of MaRS Discovery District as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

# MaRS Discovery District

## Statements of Financial Position

(in thousands of dollars)

	March 31, 2013 \$	March 31, 2012 \$ (note 2)	April 1, 2011 \$ (note 2)
<b>Assets</b>			
<b>Current assets</b>			
Cash	7,150	9,371	5,469
Restricted cash (note 3)	17,609	11,591	2,232
Restricted investment (note 3)	1,464	3,810	4,834
Tenant and client receivables (note 4)	973	790	921
Other receivables and prepayments (note 5)	1,041	1,076	1,336
Due from related parties (note 6)	2,656	221	86
	<hr/> 30,893	<hr/> 26,859	<hr/> 14,878
<b>Restricted cash</b> (note 3)	12,639	4,721	8,210
<b>Restricted investment</b> (note 3)	-	2,556	4,033
<b>Investment in related parties</b> (note 7)	600	10	-
<b>Capital assets</b> (note 9)	<hr/> 109,853	<hr/> 113,849	<hr/> 116,942
	<hr/> <b>153,985</b>	<hr/> <b>147,995</b>	<hr/> <b>144,063</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6,336	4,297	5,487
Loans and mortgages payable (note 10)	21,902	745	4,868
Restricted grants (note 11)	11,574	11,380	6,261
Due to related parties (note 6)	-	-	53
	<hr/> 39,812	<hr/> 16,422	<hr/> 16,669
<b>Loans and mortgages payable</b> (note 10)	-	21,902	18,502
<b>Restricted grants</b> (note 11)	12,639	7,277	12,243
<b>Deferred capital grants</b> (note 12)	<hr/> 62,115	<hr/> 64,857	<hr/> 67,599
	<hr/> <b>114,566</b>	<hr/> <b>110,458</b>	<hr/> <b>115,013</b>
<b>Net Assets</b>			
<b>Unrestricted</b>	8,694	8,101	3,077
<b>Investment in capital assets</b>	25,836	26,345	25,973
<b>Endowment</b> (note 13)	<hr/> 4,889	<hr/> 3,091	<hr/> -
	<hr/> 39,419	<hr/> 37,537	<hr/> 29,050
	<hr/> <b>153,985</b>	<hr/> <b>147,995</b>	<hr/> <b>144,063</b>

**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**  
**Statements of Operations**  
**For the years ended March 31, 2013 and March 31, 2012**

(in thousands of dollars)

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
		(note 2)
<b>Revenues</b>		
Real estate operations		
Rental and fees	13,287	12,908
Capital grants (note 12)	2,742	2,742
	<u>16,029</u>	<u>15,650</u>
Programs		
Provincial operating grant (note 14)	5,000	10,000
Restricted provincial grants (note 11)	7,386	6,120
Restricted donor and other grants (note 11)	1,036	437
Donations and sponsorships (note 15)	594	412
Fees and interest	949	260
	<u>14,965</u>	<u>17,229</u>
Partner payment grants (note 11)	<u>11,236</u>	<u>11,160</u>
	<u>42,230</u>	<u>44,039</u>
<b>Expenses</b>		
Real estate operations		
Property operating and services	8,588	8,679
Interest	1,012	1,044
Amortization	4,805	4,449
	<u>14,405</u>	<u>14,172</u>
Programs		
Employees and contractors	10,930	9,365
Program costs	3,150	2,051
General and administrative	1,445	1,023
Information technology	980	872
	<u>16,505</u>	<u>13,311</u>
Partner payment grants (note 11)	<u>11,236</u>	<u>11,160</u>
	<u>42,146</u>	<u>38,643</u>
<b>Excess of revenues over expenses for the year</b>	<u>84</u>	<u>5,396</u>

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

**MaRS Discovery District**  
**Statements of Changes in Net Assets**  
**For the years ended March 31, 2013 and March 31, 2012**

(in thousands of dollars)

				<b>2013</b>
	<b>Investment in capital assets \$</b>	<b>Unrestricted \$</b>	<b>Restricted Endowment \$</b>	<b>Total \$</b>
<b>Net assets - Beginning of year</b>	26,345	8,101	3,091	37,537
Endowment contributions (note 13)	-	-	1,771	1,771
Deferred endowment interest income - net of expenditures (note 13)	-	-	27	27
Change in net investment in capital assets	(509)	509	-	-
Excess of revenues over expenses for the year	-	84	-	84
<b>Net assets - End of year</b>	<b>25,836</b>	<b>8,694</b>	<b>4,889</b>	<b>39,419</b>

  

				<b>2012</b>
	<b>Investment in capital assets \$</b>	<b>Unrestricted \$</b>	<b>Restricted Endowment \$</b>	<b>Total \$ (note 2)</b>
<b>Net assets - Beginning of year</b>	25,973	3,077	-	29,050
Endowment contributions (note 13)	-	-	3,084	3,084
Deferred endowment interest income - net of expenditures (note 13)	-	-	7	7
Change in net investment in capital assets	372	(372)	-	-
Excess of revenues over expenses for the year	-	5,396	-	5,396
<b>Net assets - End of year</b>	<b>26,345</b>	<b>8,101</b>	<b>3,091</b>	<b>37,537</b>

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

**MaRS Discovery District**  
**Statements of Cash Flows**  
**For the years ended March 31, 2013 and March 31, 2012**

(in thousands of dollars, unless otherwise stated)

	<b>2013</b>	<b>2012</b>
	\$	\$ (note 2)
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenues over expenses for the year	84	5,396
Items not affecting cash		
Amortization of capital assets	4,805	4,449
Writeoff of capital assets	38	-
Amortization of deferred capital grants	(2,742)	(2,742)
Changes in working capital balance and other operational balances (note 18)	5,039	(827)
	<u>7,224</u>	<u>6,276</u>
<b>Financing activities</b>		
Receipt of endowment	1,771	3,084
Repayment of loans and mortgages (note 10)	(745)	(723)
	<u>1,026</u>	<u>2,361</u>
<b>Investing activities</b>		
Investment in related parties	(590)	(10)
Redemption of investment	4,902	2,501
Additions to capital assets	(847)	(1,356)
	<u>3,465</u>	<u>1,135</u>
<b>Increase in cash during the year</b>	11,715	9,772
<b>Cash - Beginning of year</b>	<u>25,683</u>	<u>15,911</u>
<b>Cash - End of year</b>	<u>37,398</u>	<u>25,683</u>
<b>Cash is comprised of</b>		
Cash	7,150	9,371
Restricted cash	30,248	16,312
	<u>37,398</u>	<u>25,683</u>

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

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(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. As a registered charity (87668 2717 RR0001) under the Income Tax Act, the organization is exempt from income taxes provided certain requirements of the Income Tax Act are met. 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.

In 2002, the organization was appointed administrator of the MaRS Development Trust (the Trust). The organization is the beneficiary of the Trust (note 17). On July 15, 2011, MaRS became 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 of the MaRS Centre Phase 2 Project (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, Phase 2 will be a world-class convergence centre dedicated to improving commercial outcomes from Canada's science, technology and social innovations. The total estimated budget for the Project is \$235 million, financed through a loan from Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) and the targeted month for construction completion is September 2013.

As part of the financing arrangements for the Phase 2 Project with Infrastructure Ontario, the organization's land and building is secured by a third ranking assignment, behind the first and second ranking assignments (note 10).

The organization also holds a 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.

The organization also controls MaRS Investment Accelerator Fund Inc. (IAF). IAF is an Ontario not-for-profit organization which 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.



# **MaRS Discovery District**

## Notes to Financial Statements

### **March 31, 2013 and March 31, 2012**

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(in thousands of dollars, unless otherwise stated)

## **2 Transition to accounting standards for not-for-profit organizations**

Effective April 1, 2012, the organization elected to adopt Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect. The organization has not utilized any transitional exemptions on the adoption of ASNPO. There were no adjustments to the statements of financial position, operations, changes in net assets or cash flows.

## **3 Summary of significant accounting policies**

The significant accounting policies are as follows:

### **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.

### **Capital grants and deferred revenue**

The organization follows the deferral method of accounting for contributions. Under the deferral method, unrestricted contributions and donations and grants for operations, including the unrestricted portion of the College of Founders' contributions to fund operations, are recognized as revenue when received, whereas 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. The organization has not recognized contributions of materials or services in the statements of operations.

### **Restricted and partner program grants and restricted endowment**

Restricted grants are funds received in support of specified programs, projects or activities agreed upon by MaRS and various funders. Restricted program grants are recognized in income as the related expenses are incurred.

Partner payment grants are funds received for programs that MaRS administers on behalf of the provincial and federal governments by providing flow-through funding to grant recipients. Revenue is recognized in income as expenses are incurred. MaRS utilizes internal resources to support these programs.

Restricted endowment funds have an external restriction that contributions received are to be invested and interest income generated will support a specified program, unless otherwise approved by the funder.

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

### 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.

### Donations, sponsorships and fees and other revenue

Donations, sponsorships and other revenue include all donations, sponsorships, fees and interest that are not restricted to purpose and are available for MaRS' use.

### 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 11).

### Restricted investments

Investments totalling \$1,464 (2012 - \$6,366) consist of pooled money market funds and are carried at fair value, which is equal to the unit cost plus earned interest income.

### Capital assets

Capital assets are recorded at cost, net of accumulated amortization and any impairment loss. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

### Impairment of long-lived assets

An impairment charge is recognized for long-lived assets whenever an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the assets and the carrying value.

### Tenant improvements

Cash inducements to tenants are payments for which the tenant has no obligation to make leasehold improvements to the leased space and 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 statements of financial position. Tenant inducements whereby the tenant is obliged to make leasehold improvements to the leased

# **MaRS Discovery District**

## **Notes to Financial Statements**

### **March 31, 2013 and March 31, 2012**

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(in thousands of dollars, unless otherwise stated)

space are amortized on a straight-line basis over the useful life of the improvement to amortization expense. These amounts are included in other receivables and prepayments on the statements 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 statements of financial position as renovation (note 9).

#### **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 of capital assets and internal allocations.

#### **Investments in related parties**

Phase 2 Inc. and Phase 2 Trust are wholly owned subsidiaries and are considered profit-oriented enterprises. MaRS has elected not to consolidate these entities and therefore accounts for them using the equity method.

MaRS Investment Accelerator Fund Inc., an entity deemed to be controlled by MaRS, is considered a not-for-profit organization. MaRS has elected not to consolidate this entity but has disclosed its financial information in note 8.

Cogniciti Inc., is an entity which MaRS is deemed to have significant influence over. MaRS has recorded this investment using the cost method.

#### **Financial instruments**

MaRS initially measures its financial assets and liabilities at fair value. MaRS subsequently measures all of its financial assets and liabilities at amortized cost. Financial assets and liabilities include restricted and unrestricted cash, tenant and other receivables, accounts payable and accrued liabilities, loans and mortgages payable. Amortization is recorded on a straight-line basis.

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 statements of operations.

Transaction costs are capitalized and amortized on a straight-line basis over the useful life of the related financial instrument.

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars, unless otherwise stated)

### 4 Tenant and client receivables

	2013 \$	2012 \$
Tenant and client receivables	1,788	1,628
Allowance for doubtful accounts	(815)	(838)
	<u>973</u>	<u>790</u>

### 5 Other receivables and prepayments

	2013 \$	2012 \$
Grants and other receivables	474	470
Prepaid expenses	253	307
Tenant improvements and straight-line rent - net of accumulated amortization of \$303 (2012 - \$282)	314	299
	<u>1,041</u>	<u>1,076</u>

### 6 Related party transactions

The following amounts were due from related parties, recorded at exchange amount, at the end of the year and represent all those with which MaRS has material transactions.

	2013 \$	2012 \$
Due from MaRS Phase 2 Investment Trust (i)	2,405	124
Due from MaRS Discovery Services Inc. (ii)	250	-
Due from MaRS Investment Accelerator Fund Inc. (iii)	1	5
Due from Cogniciti Inc. (iv)	-	92
	<u>2,656</u>	<u>221</u>

- i) Phase 2 Trust is a unit trust that holds the development of the Phase 2 Project (note 7). During the year, the organization provided services in the amount of \$539 (2012 - \$ 195) for project management and accounting services. Periodically during the year, MaRS provided temporary cash flow bridging to Phase 2 Trust relating to the construction of the Phase 2 Project of \$3,790 (2012 - \$3,251) and received interest of \$23 (2012 - \$nil). Of the total receivable from Phase 2 Trust at year-end, \$144 (2012 - \$124) relates to services and \$2,261 (2012 - \$nil) relates to temporary cash flow bridging.
- ii) MaRS Discovery Services Inc. (MDSI) is an Ontario not-for-profit organization. The directors of MDSI are MaRS Discovery District's CEO, Treasurer and an adviser of the organization. MDSI's sole activity in the year was to hold an investment in JOLT Fund L.P. in the amount of \$250 (2012 - \$nil), which was funded through a loan received from MaRS in 2013, bearing interest at 2% per annum with a repayment date of

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

June 2017. JOLT Fund L.P., a limited partnership of private investors, invests in promising startup 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 which 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 Inc. (iv) in the amount of \$320 (2012 - \$320). There were no transactions between MaRS and MaRS 101 or between MaRS and MDEI during 2013 and 2012.

- iii) MaRS Investment Accelerator Fund Inc. (IAF) is an Ontario not-for-profit organization which 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. During the year, the organization provided services in the amount of \$217 (2012 - \$182). The services provided included rent, information technology support, market intelligence, accounting, human resources and other general and administrative expenses.
- iv) 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 aims to commercialize evidence-based interventions to support brain fitness, a key mandate of the Baycrest Centre for Brain Fitness. Baycrest holds an 80% interest and MaRS (through MaRS and MDEI) holds 20% (note 6). During the year, the organization provided services in the amount of \$134 (2011 - \$200) to Cogniciti Inc. The services provided included the secondment of a senior advisor to Cogniciti Inc. for general management, as well as accounting services.

## 7 Investment in related parties

	2013 \$	2012 \$
MaRS Phase 2 Inc. (i)	-	-
MaRS Phase 2 Investment Trust (ii)	510	10
Cogniciti Inc. (note 6(iv))	90	-
	<hr/>	<hr/>
	600	10
	<hr/>	<hr/>

- i) The organization holds a 100% interest in Phase 2 Inc., at a cost of \$1 dollar.

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

- ii) The organization is the sole unitholder and sole beneficiary of the Phase 2 Trust and holds a subscription of 10,000 units with a cost of \$10. MaRS provided an additional capital contribution of \$500 to MaRS Phase 2 during the year to fund an investment in Triphase Accelerator Limited Partnership, an oncology drug development accelerator. To date all project costs have been capitalized and operating activity is targeted to commence September 2013.

The assets, liabilities and net assets as at March 31 and the revenues, expenses and cash flows for the years ending March 31 for Phase 2 Trust are as follows:

	2013 \$	2012 \$
Assets	183,306	59,352
Liabilities	182,796	59,342
Unitholder's Equity	510	10
Revenues	-	-
Expenses	-	-
Cash flow from operating activities	(8,828)	16,656
Cash flow from financing activities	130,373	40,684
Cash flow from investing activities	(123,268)	(55,615)

### 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 access to launch their new ventures. The terms of the funding agreement with the province permit the province, at its sole discretion, to request that the IAF return any funds held, including proceeds earned on investments.

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. At year end, the IAF held 65 investments (2012 - 51).

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 IAF are as follows:

	2013 \$	2012 \$
Assets	39,400	32,448
Liabilities	6,684	7,421
Net assets	<u>32,716</u>	<u>25,027</u>

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars, unless otherwise stated)

	2013	2012
	\$	\$
Revenue	9,048	11,912
Expenses	1,686	1,709
Interest income	1,160	1,150
Cash flow from operating activities	(271)	104
Cash flow from financing activities	7,000	11,871
Cash flow from investing activities	(6,650)	(9,761)

Assets primarily consist of restricted cash for investments and proceeds earned loans receivable (convertible debentures) and equity investments. Liabilities include restricted grants for investments. Revenues reflect grant funds utilized for operations and investments and expenses are comprised of operating expenditures for personnel and general and administrative expenses. Interest income includes gains on disposition, impairment allowances and interest income from the recording of loans receivable at fair value and subsequently measuring at amortized cost.

## 9 Capital assets

	2013		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Income-producing properties			
Land	4,293	-	4,293
Building	105,913	25,860	80,053
Renovations	462	92	370
	110,668	25,952	84,716
Land and building under development (i)	23,351	-	23,351
Other assets			
Equipment under capital lease	259	153	106
Furniture and fixtures	1,723	1,151	572
Equipment	5,252	4,563	689
Software and computer equipment	1,794	1,375	419
	143,047	33,194	109,853

**MaRS Discovery District**  
Notes to Financial Statements  
**March 31, 2013 and March 31, 2012**

(in thousands of dollars, unless otherwise stated)

	<b>2012</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Income-producing properties			
Land	4,293	-	4,293
Building	105,721	22,326	83,395
Renovations	420	50	370
	110,434	22,376	88,058
Land and building under development (i)	23,351	-	23,351
Other assets			
Equipment under capital lease	133	108	25
Furniture and fixtures	1,663	983	680
Equipment	5,903	4,483	1,420
Software and computer equipment	881	566	315
	142,365	28,516	113,849

- i) The organization incurred pre-development costs associated with the Phase 2 Project prior to the establishment of the Phase 2 Trust.

In 2007, MaRS 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 has transferred all rights of the land to the lessee in return for the construction of a building and set payments. The land and the building will be the property of the organization at the termination of the lease. The lease included an upfront non-refundable payment of \$5 million received in 2007, a \$1 million payment upon completion of certain targets, which were not met, and annual fixed amounts thereafter of \$715. The total of these amounts were being recognized on straight-line basis over the term of the lease. In 2011, the critical terms were amended and the remaining total deferred balance of \$3,320 was recognized in revenue in 2011.

In 2012 MaRS 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.



# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

### 10 Loans and mortgages payable

The organization has used the following two credit facilities relating to the initial construction of the building as follows:

	2013 \$	2012 \$
First mortgage loan, bearing interest at 4.891%, calculated semi-annually and amortized over 25 years; due November 2013 (i)	18,006	18,501
Fixed rate term loan, bearing interest at prime plus 0.15%, calculated semi-annually and amortized over 20 years; due October 2013 (ii)	3,896	4,146
	<hr/> 21,902	<hr/> 22,647
Less: Current portion	21,902	745
	<hr/> -	<hr/> 21,902

The mortgage under (i) 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 facility listed under (ii) is also 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 and a non-revolving term loan in the amount of \$2,000 are available for use, with no amounts drawn at year-end.

MaRS will renegotiate the mortgage and term loan to extend the due date.

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars, unless otherwise stated)

### 11 Restricted grants

Restricted grants are funds received in support of specified programs, projects or activities agreed upon by MaRS and various funders. These grants are recognized in income as the related expenses are incurred.

Restricted provincial grants are provided from the Province of Ontario for programs executed by MaRS. Restricted donor and other grants are provided by philanthropic donors and other funders such as the Government of Canada. Partner payment grants are programs that MaRS administers on behalf of the provincial and federal governments by providing flow-through funding to grant recipients. MaRS utilizes internal resources to support these programs.

	<b>2013</b>			
	<b>Opening balance \$</b>	<b>Funds received receivable \$</b>	<b>Recognized in operations \$</b>	<b>Ending balance \$</b>
Restricted provincial grants				
Youth Social Impact Academy (i)	-	10,001	-	10,001
Data Catalyst (ii)	4,780	-	1,011	3,769
EXCITE (iii)	1,132	-	403	729
Business Acceleration Program (iv)	-	4,044	3,894	150
Social Innovation Generation (ii)	-	1,000	1,000	-
MaRS Regional Innovation Centre (ii)	262	750	752	260
Other	507	324	326	505
	<u>6,681</u>	<u>16,119</u>	<u>7,386</u>	<u>15,414</u>
Restricted donor and other grants				
Centre for Impact Investing (v)	856	875	685	1,046
Other	33	808	351	490
	<u>889</u>	<u>1,683</u>	<u>1,036</u>	<u>1,536</u>
Partner payment grants				
Premier's Summit Award (vi)	11,087	(14)	3,810	7,263
Business Acceleration Program (v)	-	6,740	6,740	-
Other	-	686	686	-
	<u>11,087</u>	<u>7,412</u>	<u>11,236</u>	<u>7,263</u>
	<u>18,657</u>	<u>25,214</u>	<u>19,658</u>	<u>24,213</u>
Less: Current portion				<u>11,574</u>
Long-term portion				<u>12,639</u>

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars, unless otherwise stated)

	<b>2012</b>			
	<b>Opening balance \$</b>	<b>Funds received receivable \$</b>	<b>Recognized in operations \$</b>	<b>Ending balance \$</b>
Restricted provincial grants				
Data Catalyst (ii)	-	5,000	220	4,780
EXCITE (iii)	-	1,250	118	1,132
Business Acceleration Program (iv)	546	2,860	3,406	-
Social Innovation Generation (ii)	35	1,456	1,491	-
MaRS Regional Innovation Centre (ii)	-	1,049	787	262
Other	548	56	98	506
	<u>1,129</u>	<u>11,671</u>	<u>6,120</u>	<u>6,680</u>
Restricted donor and other grants				
Centre for Impact Investing (v)	-	1,023	167	856
Other	298	6	270	34
	<u>298</u>	<u>1,029</u>	<u>437</u>	<u>890</u>
Partner payment grants				
Premier's Summit Award (vi)	17,077	(1,157)	4,833	11,087
Business Acceleration Program (v)	-	6,078	6,078	-
Other	-	249	249	-
	<u>17,077</u>	<u>5,170</u>	<u>11,160</u>	<u>11,087</u>
	<u>18,504</u>	<u>17,870</u>	<u>17,717</u>	<u>18,657</u>
Less: Current portion				<u>11,380</u>
Long-term portion				<u>7,277</u>

- i) The Youth Social Impact Academy is a multi-year program, funded by the Ministry of Children and Youth Services (Ontario). Program activity commences in April 2013.
- ii) Restricted grants are for the Data Catalyst (formerly ReSRC), Social Innovation Generation (SiG) and Regional Innovation Centre Programs, multi-year programs funded by the Ministry of Economic Development and Innovation (Ontario), now the Ministry of Research and Innovation and Ministry of Economic Development Trade and Employment.
- iii) EXCITE, as established in a Memorandum of Understanding with the Ministry of Economic Development and Innovation (Ontario) in 2012, was allocated \$1,250 in seed funding from the Premier's Summit Award funds (vi).
- iv) The Business Acceleration Program is funded by the Ministry of Economic Development and Innovation (Ontario) to support MaRS' core program activities, such as market intelligence and education, as well as partner payment grants to Ontario Regional Innovation Centres.

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

(in thousands of dollars, unless otherwise stated)

- v) The Centre for Impact Investing (CII) was incubated in the SiG and has launched into its own program, and is primarily funded through multi-year grants from private foundations and corporations.
- vi) In 2006, the organization was granted \$25,000 from the Province of Ontario to administer the Premier's Summit Award (PSA). The original grant and total net accumulated related investment income of \$3,255 (2011 - \$3,149) are restricted for distribution to grantees and to cover administration costs related to PSA, as well as seed fund EXCITE (iii). During the year, the invested funds earned interest of \$106 and disbursed awards and expenses of \$3,930 resulting in a net change of (\$3,824) (note 16).

### 12 Deferred capital grants

Leaders from Canada's academic, business and scientific communities founded the organization. The College of Founders was established in 2001 and consists of individuals and corporations who made philanthropic donations in order to provide the financial foundation required to implement the organization's vision. A total of \$13,734 was received from the following founders: AIC Limited, AstraZeneca Canada Inc., Mr. Lawrence S. Bloomberg, Cancer Care Ontario, Eli Lilly Canada Inc., Dr. John R. Evans, Mr. Arthur S. Labatt, Mr. Wilf Lewitt, MDS Inc., Mr. Peter Munk, Mr. Joseph L. Rotman, RBC Financial Group, Mr. Allan Slight and Mr. William P. Wilder. In addition, contributions from government funders totalling \$74,925 have been received. A summary of the contributions to date and their respective recognition in the financial statements is as follows:

	College of Founders' contribution \$	Government of Ontario contributions \$	Government of Canada contributions \$	Ontario Innovation Trust grant \$	TBCC grant (i) \$	Total \$
Funding committed to the organization	13,734	36,000	20,000	10,000	8,925	88,659
Funding recorded in prior periods	(8,067)	(8,175)	(4,278)	(2,559)	(1,909)	(24,988)
Interest income recorded in prior periods	-	-	-	1,186	-	1,186
Funding received and deferred as capital grants in statement of financial position as at March 31, 2012	5,667	27,825	15,722	8,627	7,016	64,857
Funding recorded as income in the year ended March 31, 2012	(238)	(1,167)	(667)	(373)	(297)	(2,742)
Funding deferred as capital grants in statement of financial position as at March 31, 2013	5,429	26,658	15,055	8,254	6,719	62,115

- i) Toronto Biotechnology Commercialization Centre

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

### 13 Endowment

During the year, the organization received endowment gifts to support the MaRS Solution Lab, a program dedicated to using new approaches to solve elusive societal problems. The balances related to the MaRS Solution Lab endowment are:

	2013 \$	2012 \$
Endowment contributions	4,855	3,084
Restricted income - net of expenses	34	7
	<hr/> 4,889	<hr/> 3,091

### 14 Operating grant

On August 10, 2011, MaRS executed an agreement with the Ministry of Research and Innovation 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 Core Funding Agreement is effective April 1, 2010 through March 31, 2013 and provides \$5 million of funding annually for a total of \$15 million (2012 - \$10 million) during the term of the contract. The organization has recognized \$5 million in operating grants in the current year representing two years of funding.

### 15 Support from donors

The organization receives funding from donors and sponsors in the form of unrestricted, restricted multi-year grants and restricted endowment contributions.

Donor and sponsor funds received during the year:

	2013 \$	2012 \$
Donations and sponsorships	594	412
Restricted donor contributions	1,668	945
Endowment contributions (note 13)	1,771	3,084
	<hr/> 4,033	<hr/> 4,441

Donations and sponsorships are recognized in income in the year received. Restricted donor contributions and endowment contributions and endowment interest earned are recognized in income as the related expenses are incurred.

## MaRS Discovery District

### Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

#### 16 Contingencies and commitments

There are currently ten recipients of the PSA with a cumulative amount of \$6,589 yet to be disbursed. The organization cannot predict when the remaining disbursements will be made, as they are dependent on the researcher's funding needs. The awards must be fully disbursed within five years of signing the agreements.

MaRS holds a head lease with Phase 2 Trust for approximately 120,000 square feet of rentable area in the new Phase 2 building. The lease commitment commences November 1, 2013 for a ten year term at yearly amounts of \$3,619 for years 1-5 and \$3,981 for years 6-10. The aggregate amount of future payments are:

	\$
2014	1,508
2015	3,619
2016	3,619
2017	3,619
2018	3,619
Thereafter	22,016

MaRS expects to sub-lease the committed space to external mission-related companies and organizations.

#### 17 MaRS Development Trust

MaRS Development Trust's (the Trust) 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 Discovery District will assume the ownership of the project upon full repayment of the bonds in 2032.

#### 18 Changes in working capital balance and other operational balances

	2013 \$	2012 \$
Tenant and client receivables	(183)	131
Other receivables and prepayments	35	260
Due from/to related parties	(2,435)	(188)
Accounts payable and accrued liabilities	2,039	(1,190)
Restricted grants	5,583	160
	<hr/> 5,039	<hr/> (827)

# MaRS Discovery District

## Notes to Financial Statements

March 31, 2013 and March 31, 2012

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(in thousands of dollars, unless otherwise stated)

### 19 Government remittances

Government remittances consist of amounts (such as property taxes, sales taxes and payroll withholding taxes) required to be paid to government authorities and are recognized when the amounts come due. In respect of government remittances, \$nil (2012 - \$nil) is included within accounts payable and accrued liabilities.

### 20 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 non-profit organization that received in excess of \$1,000 in funding from the Government of Ontario.

### 21 Risk management

The main risks to which MaRS' financial instruments are exposed are as follows:

- Interest rate risk

Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization manages this risk by investing in low risk investments such as short-term deposits and money market funds that invest in government bonds.

- Liquidity risk

Liquidity risk is the risk the organization will not be able to meet its financial obligations as they come due. The organization manages liquidity risk through regular monitoring of forecast and actual cash flows. Given the organization's available liquid resources as compared to the timing of the payment of liabilities, management assesses the organization's liquidity risk to be low.

- Credit risk

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

- Market risk

Investments are subject to market risk, which includes price risk. The price risk of the portfolio is the volatility and risk of capital loss associated with investment in bonds. The organization manages this risk by investing in fixed income instruments and short-term investments that meet specific investment criteria established and approved by the Board of Directors and designed to adequately diversify the organization's investments to reduce exposure to market risk.

# **MaRS Discovery District**

Notes to Financial Statements

**March 31, 2013 and March 31, 2012**

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(in thousands of dollars, unless otherwise stated)

## **22 Comparative figures**

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