

MaRS Discovery District

Financial Statements
March 31, 2017



June 16, 2017

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, 2017 and 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, 2017 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, 2017

(in thousands of Canadian dollars, unless otherwise stated)

	2017	2016
Assets		
Current assets		
Cash (note 3)	\$3,525	\$5,130
Restricted cash (note 3)	20,589	13,270
Receivables and prepayments (note 4)	2,076	1,667
Government receivables	1,150	1,104
Due from related parties (note 5)	916	389
	<hr/> 28,256	<hr/> 21,560
Due from related parties (note 5)	342	337
Investments (note 6)	590	590
Restricted cash (note 3)	9,804	8,429
Investment in related parties (note 7)	33,325	33,102
Capital assets (note 10)	1,829	76,831
	<hr/> \$74,146	<hr/> \$140,849
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$4,919	\$6,118
Loans and mortgages payable (note 11)	-	3,849
Restricted contributions (note 12)	19,347	12,951
	<hr/> 24,266	<hr/> 22,918
Loans and mortgages payable (note 11)	-	15,398
Deferred capital contributions (note 13)	-	53,813
	<hr/> \$24,266	<hr/> \$92,129
Net Assets		
Unrestricted	\$4,922	\$3,418
Internally restricted (note 14)	35,154	36,873
Restricted endowment (note 15)	9,804	8,429
	<hr/> \$49,880	<hr/> \$48,720
	<hr/> \$74,146	<hr/> \$140,849
Contingencies and commitments (note 16)		

Approved by the Board of Directors

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

MaRS Discovery District
Statement of Operations
For the year ended March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

	2017	2016
Revenues		
Rental	\$8,795	\$10,078
Restricted provincial grants (note 12)	16,809	17,235
Restricted donations, sponsorships and other grants (note 12)	5,989	5,157
Restricted federal grants (note 12)	2,091	300
Amortization of deferred capital contributions (note 13)	2,336	2,804
Event and services fees	1,706	1,665
Other fees and interest (note 6)	3,482	1,451
Related party revenue (note 5)	791	634
	<hr/> 41,999	<hr/> 39,324
Partner payments (note 12)	8,456	8,526
	<hr/> \$50,455	<hr/> \$47,850
Expenses		
Employees and contractors	\$18,326	\$15,917
Program operating	6,375	6,126
Property operating	5,148	6,840
Amortization	3,914	4,810
Outsourced services	3,218	3,010
Supplies	1,596	1,132
Administration and governance	555	592
Interest (note 11)	456	589
Rent expense (note 5)	447	-
	<hr/> 40,035	<hr/> 39,016
Partner payments (note 12)	8,456	8,526
	<hr/> \$48,491	<hr/> \$47,542
Excess of revenues over expenses for the year	\$1,964	\$308
(Loss) income of related party (note 7)	(2,179)	12,142
	<hr/> (2,179)	<hr/> 12,142
Net (loss) income for the year	(\$215)	\$12,450
	<hr/> (\$215)	<hr/> \$12,450

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, 2017

(in thousands of Canadian dollars, unless otherwise stated)

				2017
	Unrestricted	Internally restricted (note 14)	Restricted endowment	Total
Net assets – beginning of year	\$3,418	\$36,873	\$8,429	\$48,720
Net income (loss) for the year	1,964	(2,179)	-	(215)
Endowment contributions	-	-	1,675	1,675
Shortfall in endowment fund investment income (note 15)	-	-	(300)	(300)
Inter-fund transfer	(460)	460	-	-
Net assets – end of year	\$4,922	\$35,154	\$9,804	\$49,880

				2016
	Unrestricted	Internally restricted (note 14)	Restricted endowment	Total
Net assets – beginning of year	\$3,178	\$24,663	\$7,554	\$35,395
Net income for the year	308	12,142	-	12,450
Endowment contributions	-	-	875	875
Capital distribution from related party (note 6)	500	(500)	-	-
Inter-fund transfer	(568)	568	-	-
Net assets – end of year	\$3,418	\$36,873	\$8,429	\$48,720

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

MaRS Discovery District
Statement of Cash Flows
For the year ended March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

	2017	2016
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(\$215)	\$12,450
Items not affecting cash		
Loss (Income) of related party	2,179	(12,142)
Amortization of capital assets	3,914	4,810
Amortization of deferred capital contributions	(2,336)	(2,804)
Changes in working capital balances (note 17)	4,210	(7,750)
	<hr/> \$7,752	<hr/> (\$5,436)
Financing activities		
Receipt of endowment	\$1,675	\$875
Shortfall in endowment fund investment income (note 15)	(300)	-
Repayment of loans and mortgages (note 11)	(744)	(932)
	<hr/> \$631	<hr/> (\$57)
Investing activities		
Net change in restricted cash	(\$8,694)	\$7,775
Additions to capital assets	(1,294)	(1,642)
	<hr/> (\$9,988)	<hr/> \$6,133
(Decrease) increase in cash during the year	(\$1,605)	\$640
Cash – beginning of year	<hr/> \$5,130	<hr/> \$4,490
Cash – end of year	<hr/> \$3,525	<hr/> \$5,130
Supplementary disclosure:		
Net contribution of capital assets to related party (note 7)	\$53,879	-
Receipt of investment from related party (note 6)	-	\$500

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

MaRS Discovery District

Notes to Financial Statements

March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

1. Description of organization

MaRS Discovery District (MaRS or the organization) was established to develop a world-class innovation and convergence center 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 remove systems barriers by conducting research and working collaboratively with governments and public agencies, innovators, established businesses and community partners to determine how to increase the ease and effectiveness of the adoption of new innovations. MaRS administers partner payment grants on behalf of the Province of Ontario by providing flow-through grant funding.

MaRS 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.

Related entities – real estate

Part of the MaRS vision is the MaRS Centre, which is located on the south side of College Street between University Avenue and Elizabeth Street in downtown Toronto. The MaRS Centre is a world-class convergence centre with state-of-the-art laboratory, office and amenity spaces dedicated to improving commercial outcomes from Canada's science, technology and social innovations. The Centre includes properties that are held by three separate related entities.

MaRS Phase 1 Investment Trust, MaRS Phase 1 Inc. and 2550106 Ontario Inc. (note 7)

In December 2016, MaRS became the sole unitholder and sole beneficiary of the MaRS Phase 1 Investment Trust (Phase 1 Trust) and the 100% sole shareholder of both MaRS Phase 1 Inc. (Phase 1 Inc.) and 2550106 Ontario Inc. (2550106 Ontario). The Phase 1 Trust holds the South Tower and Heritage Building located at 101 College Street.

Phase 1 Inc. is an Ontario for-profit company whose sole activity is to act as Trustee for Phase 1 Trust. Phase 1 Inc. in its capacity as trustee executes contracts and other legal and financial instruments for Phase 1 Trust, but does not record any financial activity of its own.

2550106 Ontario is an Ontario for-profit company whose sole activity is to hold the legal and registered title to the Phase 1 lands as bare trustee for MaRS but does not record any financial activity of its own.

MaRS Phase 2 Investment Trust and MaRS Phase 2 Inc. (note 7)

MaRS is an 80% unitholder and beneficiary of the MaRS Phase 2 Investment Trust (Phase 2 Trust) and the 80% shareholder of MaRS Phase 2 Inc. (Phase 2 Inc.). The University of Toronto holds a 20% interest in Phase 2 Trust and Phase 2 Inc. The Phase 2 Trust holds the West Tower, located at 661 University Avenue.

Phase 2 Inc. is an Ontario for-profit company whose sole activity is to act as Trustee for Phase 2 Trust. 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.

MaRS Development Trust

The MaRS Development Trust holds the Toronto Medical Discovery Tower (also known as the Princess Margaret Cancer Research Tower) facility, situated at the corner of College and Elizabeth Streets.

In 2002, MaRS 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), for the 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 a 30-year lease dated December 12, 2002. The Trust receives finance income that is recognized over the term of the lease in a manner that produces a constant rate of return on the investment

MaRS Discovery District

Notes to Financial Statements

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in the lease. As beneficiary of the Trust, MaRS will assume the ownership of the project upon full repayment of the bonds in 2035.

Related entities – investment and other

MaRS Investment Accelerator Fund Inc. (note 8)

MaRS 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.

MaRS VX (note 9)

MaRS controls MaRS VX, a federal not-for-profit organization incorporated on May 16, 2013. MaRS VX operates the Social Venture Exchange (SVX) under the regulations of the Ontario Securities Commission.

MaRS Discovery Services Inc.

MaRS controls MaRS Discovery Services Inc. (MDSI), an Ontario not-for-profit organization. MDSI holds a 21% investment in JOLT Fund L.P.; 100% of MaRS 101 Ventures Inc.; 100% of MaRS Catalyst Fund General Partner Inc.; and 100% of MaRS Discovery Enterprises Inc. (MDEI).

JOLT Fund L.P. is a limited partnership of private investors that has made investments in promising start-up companies developing products or services in mobile and digital technology. These investee companies participated in the JOLT program, an education and mentoring program that was offered by MaRS. MaRS 101 Ventures Inc. is an Ontario for-profit company that acts as the general partner to JOLT Fund L.P.

MaRS Catalyst Fund General Partner Inc. is an Ontario for-profit company that acts as the general partner to the MaRS Catalyst Fund L.P. The Catalyst Fund L.P. makes capital investments, directly or indirectly, in for-profit businesses meeting the B-Corp criteria, which include standards of verified social and environmental performance, public transparency, legal accountability and aspiring to use the power of markets to solve social and environmental problems. MaRS does not have a financial interest in the Catalyst Fund.

MDEI is an Ontario for-profit company that holds a 10.5% investment in Cogniciti Inc.

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.

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

MaRS Discovery District

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(in thousands of Canadian dollars, unless otherwise stated)

Other

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

Capital assets

Capital assets are recorded at cost, net of accumulated amortization and any impairments. An impairment loss 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
Building improvements	5 years
Leasehold improvements	8 years
Furniture and fixtures	5-10 years
Equipment	2-10 years
Software	3-5 years

Building improvements

Renovations made by the organization related to space being leased to tenants are capitalized as building improvements and included in capital assets on the statement of financial position. The costs are amortized on a straight-line basis over the estimated useful life of the renovations.

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 and investments in related parties and internal allocations.

Investments

For controlled, profit-oriented subsidiaries, such as Phase 1 Trust 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 distribution (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. For MDSI, the financial information has not been disclosed as it is not material to the MaRS financial statements.

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.

MaRS Discovery District
Notes to Financial Statements
March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

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 that is held for endowment net assets (note 15) and funds segregated for restricted program grants (note 12).

4. Receivables and prepayments

	2017	2016
Tenant and other receivables net of allowance for doubtful accounts of \$249 (2016 - \$666)	\$1,748	\$1,166
Prepaid expenses	328	467
Tenant improvements and straight-line rent, net of accumulated amortization of \$ nil (2016 - \$346)	-	34
	<hr/>	<hr/>
	\$2,076	\$1,667
	<hr/>	<hr/>

5. Related party transactions and balances

During the course of the year, MaRS entered into certain transactions with related parties. These transactions are in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

The organization provided services to Phase 1 Trust in the amount of \$37 (2016 – nil) for information technology support, accounting, human resources and project management. The organization paid rent to Phase 1 Trust in the amount of \$447 (2016 – nil) during the year.

The organization provided services to Phase 2 Trust in the amount of \$360 (2016 - \$307) for information technology support, accounting, and human resources. The organization received building property management services from Phase 2 Trust in the amount of \$58 (2016 - \$602) during the year.

The organization provided services to IAF in the amount of \$281 (2016 - \$310). The services provided included rent, information technology support, accounting, human resources and other general and administrative expenses.

The organization paid an operating fee of \$539 (2016 - \$450) to MaRS VX to operate the SVX and provided services to MaRS VX in the amount of \$113 (2016 - \$17). The services provided included rent, information technology support and other general and administrative expenses. Staff services are shared and costs are allocated between MaRS and MaRS VX. The net allocation from MaRS to MaRS VX was \$304 (2016 - \$131).

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.

The loan due from MDSI bears interest at 2% per annum. It had an original repayment date of June 2017 that has been extended to June 2020.

MaRS Discovery District
Notes to Financial Statements
March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

The following amounts were due from (to) related parties at the end of the year.

	2017	2016
Current (non-interest bearing)		
Due to Phase 1 Trust	(\$212)	\$ -
Due from Phase 2 Trust	804	36
Due from IAF	183	320
Due from MaRS VX	141	33
	<hr/>	<hr/>
	\$916	\$389
	<hr/>	<hr/>
Non-current		
Subordinated loan due from MaRS VX	\$70	\$70
Loan due from MDSI	272	267
	<hr/>	<hr/>
	\$342	\$337
	<hr/>	<hr/>

6. Investments

Cogniciti Inc.

MaRS holds directly a 1.8% interest (carried at cost of \$90) and indirectly, through MDEI, a 10.5% interest in Cogniciti Inc. Cogniciti Inc. was formed in 2009 through a partnership between Baycrest Centre for Geriatric Care (Baycrest), one of the world's leading cognitive science institutes, and MaRS. Since 2013 Baycrest has continued to fund Cogniciti, resulting in a dilution of MaRS' interests. Baycrest currently holds an 87.7% interest in Cogniciti.

Triphase Accelerator Limited Partnership

MaRS holds a 4% interest (carried at cost of \$500) in Triphase Accelerator Limited Partnership (Triphase). This investment was received in August 2015 through a capital distribution from Phase 2 Trust. Triphase is a biopharmaceutical company focused on accelerating oncology products from the pre-investigational new drug state to proof of concept in less time and with less capital than traditional pharmaceutical and biotechnology approaches. It attempts to achieve this result through careful product selection, study design and execution, with support from world-class scientists, clinicians and business professionals in Canada, the United States and Europe. MaRS is entitled to receive distributions at an annual rate of 8% when declared by the General Partner of Triphase. A distribution of \$951 (2016 – nil) was paid to MaRS during the year and has been included in other fees and interest income.

MaRS Discovery District
Notes to Financial Statements
March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

7. Investment in related parties

The organization accounts for both its interests in Phase 1 Trust and Phase 2 Trust (Trusts) using the equity method. The Trusts have December fiscal year ends. MaRS records the income (loss) from each trust with a three-month lag and provides disclosure of key financial information for the period from the Trusts' year end to March 31.

A continuity of the investment in the Trusts is as follows:

	Phase 1	Phase 2	Total
Balance, March 31, 2015	-	\$21,460	\$21,460
Income of Phase 2 Trust	-	12,142	12,142
Capital distribution (note 6)	-	(500)	(500)
<hr/>			
Balance March 31, 2016	-	33,102	33,102
Net assets transferred	\$53,879	-	53,879
Deferred capital contributions related to net assets transferred (note 13)	(51,477)	-	(51,477)
Loss of Phase 2 Trust	-	(2,179)	(2,179)
<hr/>			
Balance, March 31, 2017	\$2,402	\$30,923	\$33,325

On January 23, 2017, MaRS transferred the beneficial ownership of the land and buildings at 101 College Street along with the related assets and liabilities to the Phase 1 Trust. The outstanding balance of the deferred capital contributions that were used to purchase the buildings (note 13) has been recorded against the investment in Phase 1 Trust. These contributions will be recognized in future years, over the useful life of the property that has been transferred, as part of the income recorded from Phase 1 Trust.

Assets transferred (net of accumulated amortization):

Land	\$4,293
Building	66,280
Building improvements	916
Equipment	893
	<hr/>
Total assets transferred	\$72,382

Liabilities assumed:

Term loan	\$2,958
Mortgage payable	15,545
	<hr/>
Total liabilities assumed	\$18,503

Net assets transferred	\$53,879
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MaRS has entered into a license agreement with the Phase 1 Trust for the use of the premises it occupies in the building.

Until August 25, 2015, MaRS was the sole unitholder of Phase 2 Trust and until that date recorded 100% of the loss of Phase 2 Trust. On August 26, 2015, the University of Toronto became a 20% unitholder in Phase 2 Trust through the contribution of \$31,000. The dilution of MaRS' ownership to 80% resulted in an accounting

MaRS Discovery District
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gain of \$22,038 which has been included in the income (loss) of related party on the statement of operations. Subsequent to August 26, 2015, MaRS has recorded 80% of the loss of Phase 2 Trust.

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for the Phase 2 Trust's fiscal years ending December 31 are as follows:

	Dec 31, 2016	Dec 31, 2015
Assets	\$344,506	\$343,054
Liabilities	\$305,852	\$301,677
Unitholder's equity	\$38,654	\$41,377
Revenue	\$29,053	\$17,701
Expenses	\$31,776	\$28,284
Cash flow from operating activities	\$5,583	(\$7,696)
Cash flow from financing activities	(\$7,015)	\$103,130
Cash flow from investing activities	(\$13,152)	(\$73,010)

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for the Phase 1 and Phase 2 Trusts' quarter ending March 31, 2017 are as follows:

	March 31
Assets	\$492,041
Liabilities	\$388,280
Unitholder's equity	\$103,761
Revenue	\$13,227
Expenses	\$14,031
Net income inclusion related to Phase 2 debt refinancing	\$12,034
Cash flow from operating activities	(\$7,030)
Cash flow from financing activities	\$79,895
Cash flow from investing activities	(\$2,000)

8. MaRS Investment Accelerator Fund Inc.

MaRS Investment Accelerator Fund Inc. (IAF) is a Province of Ontario funded 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 IAF makes investments in the form of equity instruments and convertible secured debentures that have 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. The conversion terms may include a share price discount.

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.

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

	2017	2016
Assets	\$64,840	\$57,912
Liabilities	\$64,840	\$57,912
Operating revenue	\$2,272	\$2,357
Operating expenses	\$2,328	\$2,357
Cash flow from operating activities	(\$200)	(\$546)
Cash flow from financing activities	-	-
Cash flow from investing activities	\$1,739	\$4,514

9. MaRS VX

MaRS VX operates the Social Venture Exchange (SVX). The 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.

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

	2017	2016
Assets	\$341	\$220
Liabilities	\$273	\$172
Net assets	\$68	\$48
Revenue	\$910	\$484
Expenses	\$890	\$501
Cash flow from operating activities	\$11	\$79
Cash flow from financing activities	-	-
Cash flow from investing activities	(\$74)	(\$52)

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(in thousands of Canadian dollars, unless otherwise stated)

10. Capital assets

	2017		
	Cost	Accumulated Amortization	Net
Furniture and fixtures	\$1,878	\$1,719	\$159
Equipment	834	590	244
Software	2,397	1,114	1,283
Leasehold improvements	153	10	143
	\$5,262	\$3,433	\$1,829
	2016		
	Cost	Accumulated Amortization	Net
Income-producing properties			
Land	\$4,293	-	\$4,293
Building	105,675	\$36,459	69,216
Improvements	1,619	520	1,099
	\$111,587	\$36,979	\$74,608
Other assets			
Equipment under capital lease	\$88	\$88	-
Furniture and fixtures	1,761	1,664	\$97
Equipment	3,761	3,219	542
Software and network equipment	3,023	1,439	1,584
	\$8,633	\$6,410	\$2,223
	\$120,220	\$43,389	\$76,831

On January 23, 2017, MaRS contributed land, building, improvements and related equipment to Phase 1 Trust (note 7).

MaRS Discovery District
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March 31, 2017

(in thousands of Canadian dollars, unless otherwise stated)

11. Loans and mortgages payable

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

	2017	2016
Mortgage	-	\$16,101
Term loan	-	3,146
		<hr/>
	-	\$19,247
Less: current portion	-	3,849
		<hr/>
Long-term portion	-	\$15,398
		<hr/>

The mortgage and term loan were both transferred to Phase 1 Trust on January 23, 2017 as part of the transfer of the Phase 1 property (note 7). Prior to the transfer, the mortgage bore interest at 3.0%, calculated semi-annually and amortized over 25 years and the term loan bore interest at prime plus 0.25%, calculated semi-annually and amortized over 20 years.

MaRS has a credit facility that includes a \$5,000 revolving demand facility and a \$2,000 revolving lease line of credit. No amounts were drawn on either at March 31, 2017 (2016 – nil). The credit facility is secured by a general security agreement and a guarantee by Phase 1 Trust, supported by a second mortgage in the amount of \$10,000 on the Phase 1 land and building.

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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 grants from the Province of Ontario and the Government of Canada, and restricted donations and other grants from philanthropic donors and other funders. MaRS also administers partner payment programs on behalf of the Province of Ontario and Government of Canada. These programs provide flow-through funding to the recipients.

	Province of Ontario	Government of Canada	Other funders	Partner payments	Total
Balance, March 31, 2015	\$15,286	-	\$1,276	\$3,314	\$19,876
Funds received during the year Recognized as revenue	12,079	\$300	5,881	6,033	24,293
	(17,235)	(300)	(5,157)	(8,526)	(31,218)
Balance March 31, 2016	10,130	-	2,000	821	12,951
Funds received during the year Recognized as revenue	20,167	2,091	8,348	9,135	39,741
	(16,809)	(2,091)	(5,989)	(8,456)	(33,345)
Balance, March 31, 2017	\$13,488	-	\$4,359	\$1,500	\$19,347

The Province of Ontario, through the Ministry of Research and Innovation and Science, 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 also develops and supports multi-stakeholder innovation initiatives. The Core Funding Agreement with the Province of Ontario has been in place since April 1, 2010 and has provided \$5,000 annually for a total of \$35,000 over the seven-year period ended March 31, 2017. MaRS has received a commitment for a funding agreement extension to March 31, 2018 for a further \$5,000.

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

The Government of Canada, through the National Research Council of Canada, provides funding to MaRS that supports the Canada Accelerator and Incubator Program (CAIP). The program aims to establish a critical mass of business incubators and accelerators in Canada, capable of promoting a higher output of successful, innovative, high-growth small and medium-sized enterprises. The funding agreement with the Government of Canada has been in place since January 1, 2016 and will contribute a maximum of \$6,109 for costs incurred by the organization over a three-year period ending March 31, 2019.

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

The partner payment programs include the Ontario Regional Innovations Centres (managed by the Business Acceleration Programs noted above), research funding (managed by the EXCITE program), and travel assistance for firms enrolled in the CAIP program.

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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.

In January 2017, the deferred capital contributions have been recorded against the investment in Phase 1 Trust which arose on the transfer of the capital assets (note 7).

	College of Founders	Ontario Funders	Government of Canada	Total
Balance March 31, 2015	\$4,953	\$37,942	\$13,722	\$56,617
Amortization during the year	(238)	(1,899)	(667)	(2,804)
Balance, March 31, 2016	\$4,715	\$36,043	\$13,055	\$53,813
Amortization	(198)	(1,583)	(555)	(2,336)
Transfer to investment in Phase 1 Trust (note 7)	(4,517)	(34,460)	(12,500)	(51,477)
Balance, March 31, 2017	-	-	-	-

14. Internally restricted net assets

Internally restricted net assets include capital assets and investment in related parties.

15. 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 are transferred to restricted contributions (note 12) for use by the program. The endowment agreement permits an amount of capital to be spent when there is a shortfall in investment income. During the year, \$300 (2016 – nil) has been deducted from endowment net assets and recorded as restricted donations, sponsorships and other grants revenue.

16. Contingencies and commitments

As part of the new financing arrangement for the West Tower, MaRS has provided the Province of Ontario a pledge of its ownership of the units of Phase 2 Trust and an undertaking to deliver a charge on its beneficial interest in the MaRS Development Tower.

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17. Changes in working capital balances

	2017	2016
Receivables and prepayments	(\$409)	\$123
Government receivables	(46)	(1,104)
Due from/to related parties	(532)	153
Accounts payable and accrued liabilities	(1,199)	3
Restricted contributions	6,396	(6,925)
	4,210	(\$7,750)

18. Risk management

The organization's activities expose it to a range of financial risks.

Credit risk

Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The organization minimizes its risk on cash and restricted cash by depositing the funds with a major Canadian commercial bank. The organization is exposed to credit risk in connection with accounts receivable from tenant leases or collaboration centre clients. This is minimized through continuous evaluation and monitoring of outstanding receivables and recording of an allowance for uncollectible accounts. Allowances for doubtful accounts are estimated based on past experience, specific risks associated with the tenant or client and other relevant information.

Liquidity risk

Liquidity risk is the risk the organization will not be able to meet its financial obligations as they come due. The organization derives a significant portion of its revenue from the Ontario government and other funders under agreements that cover only one to three years (see note 12). To manage liquidity risk, the organization actively monitors its operating requirements and works to increase the funding received from other services. The organization also has undrawn credit facilities available.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or other prices, will effect the organization's income or the value of its financial instruments. The organization does not have any significant exposure to foreign exchange, interest rate or other pricing risk.

19. Comparative figures

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