

MaRS Discovery District

Financial Statements

March 31, 2014



October 8, 2014

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, 2014, 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, 2014 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, 2014

(in thousands of dollars, unless otherwise stated)

	2014 \$	2013 \$
Assets		
Current assets		
Cash	8,366	7,150
Restricted cash (note 3)	15,121	17,609
Restricted investment (note 3)	-	1,464
Tenant and client receivables (note 4)	450	973
Other receivables and prepayments (note 5)	1,016	1,041
Due from related parties (note 6)	840	2,656
	<hr/>	<hr/>
	25,793	30,893
Restricted cash (note 3)	20,793	12,639
Investment in related parties (note 7)	600	600
Capital assets (note 10)	107,427	109,853
	<hr/>	<hr/>
	154,613	153,985
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,260	6,336
Loans and mortgages payable (note 11)	4,308	21,902
Restricted grants (note 12)	15,302	11,574
	<hr/>	<hr/>
	26,870	39,812
Loans and mortgages payable (note 11)	16,784	-
Restricted grants (note 12)	11,329	12,639
Deferred capital grants (note 13)	59,374	62,115
	<hr/>	<hr/>
	114,357	114,566
Net Assets		
Unrestricted	7,606	8,694
Investment in capital assets	26,961	25,836
Endowment (note 14)	5,689	4,889
	<hr/>	<hr/>
	40,256	39,419
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	154,613	153,985

Contingencies and commitments (note 17)

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, 2014

(in thousands of dollars, unless otherwise stated)

	2014 \$	2013 \$
Revenues		
Programs and real estate		
Real estate rent	10,763	10,742
Provincial operating grant (note 15)	5,000	5,000
Restricted provincial grants (note 12)	8,679	7,387
Restricted donor and other grants (note 12)	2,736	1,036
Capital grants (note 13)	2,742	2,742
Event and services fees	1,988	1,965
Other fees and interest	979	900
Donations and sponsorships (note 16)	731	594
	<hr/>	<hr/>
	33,618	30,366
Partner payment grants (note 12)	<hr/>	<hr/>
	10,899	11,236
	<hr/>	<hr/>
	44,517	41,602
Expenses		
Programs and real estate		
Employees and contractors	14,495	11,425
Property operating	6,052	6,086
Amortization	4,891	4,805
Program operating	3,187	3,542
Outsourced services	2,549	2,047
Supplies	996	923
Interest	843	1,012
Administration and governance	568	442
	<hr/>	<hr/>
	33,581	30,282
Partner payment grants (note 12)	<hr/>	<hr/>
	10,899	11,236
	<hr/>	<hr/>
	44,480	41,518
	<hr/>	<hr/>
Excess of revenues over expenses for the year	37	84

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, 2014

(in thousands of dollars, unless otherwise stated)

				2014
	Investment in capital assets \$	Unrestricted \$	Restricted Endowment \$	Total \$
Net assets - Beginning of year	25,836	8,694	4,889	39,419
Endowment contributions (note 14)	-	-	875	875
Deferred endowment interest income - net of expenditures (note 14)	-	-	(75)	(75)
Change in net investment in capital assets	1,125	(1,125)	-	-
Excess of revenues over expenses for the year	-	37	-	37
Net assets - End of year	26,961	7,606	5,689	40,256
				2013
	Investment in capital assets \$	Unrestricted \$	Restricted Endowment \$	Total \$ (note 2)
Net assets - Beginning of year	26,345	8,101	3,091	37,537
Endowment contributions (note 14)	-	-	1,771	1,771
Deferred endowment interest income - net of expenditures (note 14)	-	-	27	27
Change in net investment in capital assets	(509)	509	-	-
Excess of revenues over expenses for the year	-	84	-	84
Net assets - End of year	25,836	8,694	4,889	39,419

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

MaRS Discovery District

Statement of Cash Flows

For the year ended March 31, 2014

(in thousands of dollars, unless otherwise stated)

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	37	84
Items not affecting cash		
Amortization of capital assets	4,891	4,805
Write off of capital assets	-	38
Amortization of deferred capital grants	(2,742)	(2,742)
Changes in working capital balance and other operational balances (note 19)	5,632	5,039
	<u>7,818</u>	<u>7,224</u>
Financing activities		
Receipt of endowment	875	1,771
Repayment of loans and mortgages (note 11)	(811)	(745)
	<u>64</u>	<u>1,026</u>
Investing activities		
Investment in related parties	-	(590)
Redemption of investment	1,464	4,902
Additions to capital assets	(2,464)	(847)
	<u>(1,000)</u>	<u>3,465</u>
Increase in cash during the year	6,882	11,715
Cash - Beginning of year	<u>37,398</u>	<u>25,683</u>
Cash - End of year	<u>44,280</u>	<u>37,398</u>
Cash is comprised of		
Cash	8,366	7,150
Restricted cash	35,914	30,248
	<u>44,280</u>	<u>37,398</u>

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

MaRS Discovery District

Notes to Financial Statements

March 31, 2014

(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 18). 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 Project is financed through a loan from Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) and operating activity commenced in January 2014.

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 11).

The organization also 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.

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 also controls MaRS VX, a federal not-for-profit organization incorporated in May 16, 2013 (note 9). The directors of MaRS VX consist of members of management of the organization. MaRS VX operates the Social Venture Exchange (SVX). Investor funds do not flow through MaRS VX and its activities are regulated by the Ontario Securities Commission.

MaRS Discovery District

Notes to Financial Statements

March 31, 2014

(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 statement 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.

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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 12).

Restricted investments

Investments totalling \$0 (2013 - \$1,464) 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
Network	7 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

MaRS Discovery District

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(in thousands of dollars, unless otherwise stated)

term of the applicable lease. These amounts are included in tenant receivables on the statement of financial position. Tenant inducements whereby the tenant is obliged to make leasehold improvements to the leased 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 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 renovation (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 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. and MaRS VX, entities deemed to be controlled by MaRS, are considered not-for-profit organizations. 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 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, 2014

(in thousands of dollars, unless otherwise stated)

4 Tenant and client receivables

	2014	2013
	\$	\$
Tenant and client receivables	1,225	1,788
Allowance for doubtful accounts	(775)	(815)
	<hr/> 450	<hr/> 973

5 Other receivables and prepayments

	2014	2013
	\$	\$
Grants and other receivables	442	474
Prepaid expenses	336	253
Tenant improvements and straight-line rent - net of accumulated amortization of \$321 (2013 - \$303)	238	314
	<hr/> 1,016	<hr/> 1,041

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.

	2014	2013
	\$	\$
Due from MaRS Phase 2 Investment Trust (i)	311	2,405
Due from MaRS Discovery Services Inc. (ii)	257	250
Due from MaRS Investment Accelerator Fund Inc. (iii)	11	1
Due from MaRS VX (iv)	261	-
	<hr/> 840	<hr/> 2,656

- 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 \$270 (2013 - \$539) 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 \$6,843 (2013 - \$3,790) and received interest of \$15 (2013 - \$23). Of the total receivable from Phase 2 Trust at year-end, \$200 (2013 - \$nil) relates to network installation cost, \$111 (2013 - \$144) relates to services and \$0 (2013 - \$2,261) relates to temporary cash flow bridging.

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(in thousands of dollars, unless otherwise stated)

- ii) MaRS Discovery Services Inc. (MDSI) is an Ontario not-for-profit organization. The directors of MDSI consist of members of management of MaRS DD 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 \$257 (2013 - \$250), which was funded through a loan received from MaRS in 2014, bearing interest at 2% per annum with a repayment date of 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 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 Inc. in the amount of \$320 (2013 - \$320). There were no transactions between MaRS and MaRS 101 or between MaRS and MDEI during 2014 and 2013.

- 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 \$173 (2013 - \$217). The services provided included rent, information technology support, market intelligence, accounting, human resources and other general and administrative expenses.
- iv) MaRS VX is a federal not-for-profit organization which operates the Social Venture Exchange. The directors of MaRS VX consist of members of management of MaRS. During the year, the organization provided services in the amount of \$22. The services provided included accounting and other general and administrative expenses.

On March 21, 2014, a subordinated loan agreement was entered into between MaRS and MaRS VX in the amount of \$70. The purpose of the loan was to enable MaRS VX to maintain the minimum working capital as mandated by the Ontario Securities Commission. The loan is non-interest bearing and has no pre-determined payment schedule.

7 Investment in related parties

	2014 \$	2013 \$
MaRS Phase 2 Inc. (i)	-	-
MaRS Phase 2 Investment Trust (ii)	510	510
Cogniciti Inc. (iii)	90	90
	<hr/>	<hr/>
	600	600
	<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, 2014

(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.

The core activity of the Phase 2 Trust is the development of the Phase 2 Project. Infrastructure Ontario (“IO”) has provided a loan facility of up to \$235 million for the Project. On September 1, 2014, the construction loan will convert into term financing with the following key elements:

- A debenture with a principal of \$220 million for a 5-year term and 25 year amortization, commencing September 1, 2014 with a fixed interest rate of 4.09% on \$180 million and a floating interest rate of 3-month CAD-BA-CDOR + 1.29% on the remaining.
- Additionally, IO may at its discretion replace the debenture with a fully fixed rate debenture of not more than 4.09%.

A Debt Service Guarantee (Guarantee) is in place between the Ministry of Research and Innovation of the Province of Ontario, Phase 2 and the organization whereby the Ministry will provide \$7.1 million per year or a period not to exceed fifteen years for the Phase 2 Project. The Guarantee has funded the construction loan interest since February 2014 and will also support the quarter term loan payments once they commence September 30, 2014. Under the current agreement, the Guarantee will be less than the projected debt payments in 2015. As lender, IO has the ability to call the loan should the Guarantee not cover the debt service payments. Phase 2 Trust continues to be in discussion with IO and the Province of Ontario to determine a longer-term financing solution (note 10(ii)).

All project costs up till December 2013 have been capitalized and operating activity commenced in January 2014. As of September 2014, the building is 30% leased.

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

	December 31, 2013	December 31, 2012
	\$	\$
Assets	219,401	169,724
Liabilities	218,891	169,214
Unitholder’s equity	510	510
Cash flow from operating activities	(8,708)	15,489
Cash flow from financing activities	56,340	118,852
Cash flow from investing activities	(48,453)	(133,150)

As at March 31, 2014, assets of \$219,871, liabilities of 219,361 and unitholder’s equity of \$510 were recorded. From January 1 to March 31, 2014, Phase 2 Trust had \$2,712 in revenues and \$4,545 in expenses; cash flows from operating activities of (\$20,391), from financing activities of \$26,764 and from investing activities of (\$3,822).

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March 31, 2014

(in thousands of dollars, unless otherwise stated)

- iii) 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(ii)).

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 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.

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:

	2014 \$	2013 \$
Assets	48,846	39,400
Liabilities	5,389	6,684
Net assets	43,457	32,716
Revenues	13,001	9,048
Expenses	1,856	1,686
Investment (income) expenses	259	(326)
Cash flow from operating activities	1,248	(271)
Cash flow from financing activities	8,675	7,000
Cash flow from investing activities	(7,209)	(6,650)

Assets consist of restricted cash for operations, investments and proceeds earned and investments consisting of convertible debentures (loans receivable) and equity investments. Convertible debentures are initially recorded at fair value and are subsequently measured at amortized cost. Equity investments are recorded at the carrying value of the debenture at the time of conversion. Investments are tested for impairment at the end of each reporting period.

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(in thousands of dollars, unless otherwise stated)

The carrying value of investments (including interest income from the measurement of convertible debentures at amortized cost) is recorded in the IAF financial statements as follows:

	2014 \$	2013 \$
Carrying value before allowance for impairment	44,897	34,567
Allowance for impairment	(9,673)	(6,148)
	<hr/>	<hr/>
Carrying value of investments	35,224	28,419
	<hr/>	<hr/>

The following represents the initial cash paid for the current investments held:

	2014 \$	2013 \$
Cash paid for convertible debentures and equity investments	41,096	32,052
Allowance for impairment	(9,945)	(6,800)
	<hr/>	<hr/>
	31,151	25,252
	<hr/>	<hr/>
Number of investments	84	65

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. Investment 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 MaRS VX

MaRS VX's current sole initiative is to operate the Social Venture Exchange (SVX), SVX 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 and its activities are regulated by the Ontario Securities Commission as a restricted market dealer.

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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:

	2014 \$	2013 \$
Assets	281	-
Liabilities	270	-
Net assets	11	-
Revenues	304	-
Expenses	292	-
Cash flow from operating activities	208	-
Cash flow from financing activities	70	-
Cash flow from investing activities	-	-

10 Capital assets

	2014		
	Cost \$	Accumulated amortization \$	Net \$
Income-producing properties (ii)			
Land	4,293	-	4,293
Building	105,675	29,398	76,277
Renovations	736	325	411
	110,704	29,723	80,981
Land under development (i)	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 computer equipment	1,065	502	563
Network	1,378	46	1,332
	141,938	34,511	107,427

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March 31, 2014

(in thousands of dollars, unless otherwise stated)

	2013		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Income-producing properties (ii)			
Land	4,293	-	4,293
Building	105,913	25,860	80,053
Renovations	462	92	370
	110,668	25,952	84,716
Land 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

- i) Infrastructure Ontario's loan for the Phase 2 Project is secured by a third-ranking assignment of the organization's freehold interest in Phase 1, behind the first and second ranking assignments (note 11).
- ii) 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 2011, MaRS Phase 2 Inc., as trustee to Phase 2 Trust (note 7(ii)), 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.

On September 22, 2014, the Province of Ontario entered into a conditional agreement with ARE, MaRS and MaRS Phase 2 Inc., to purchase ARE's interest in the Phase 2 building project. The Province has 150 days to exercise its option under the terms of the agreement.

As part of the financing arrangements for the Phase 2 Project with Infrastructure Ontario, the organization's land interest in Phase 2 is secured by first ranking assignment.

MaRS Discovery District

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(in thousands of dollars, unless otherwise stated)

11 Loans and mortgages payable

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

	2014 \$	2013 \$
First mortgage loan, bearing interest at 3.0%, calculated semi-annually and amortized over 25 years; due November 2017 (i)	17,446	18,006
Fixed rate term loan, bearing interest at prime plus 0.15%, calculated semi-annually and amortized over 20 years; due October 2014 (ii)	3,646	3,896
	<hr/> 21,092	<hr/> 21,902
Less: Current portion	4,308	21,902
	<hr/> 16,784	<hr/> -

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 is available for use, with no amounts drawn at year-end.

12 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.

MaRS Discovery District

Notes to Financial Statements

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(in thousands of dollars, unless otherwise stated)

	2014			
	Opening balance \$	Funds received/ receivable \$	Recognized in operations \$	Ending balance \$
Restricted provincial grants				
Studio Y (i)	10,001	123	711	9,413
Business Acceleration Program (ii)	150	4,475	3,077	1,548
Advanced Energy Centre (iii)	-	5,245	817	4,428
Data Catalyst (iv)	3,769	-	1,497	2,272
EXCITE (v)	729	-	448	281
MaRS Regional Innovation Centre (iv)	260	751	750	261
Social Innovation Generation (iv)	-	995	921	74
Other	505	468	458	515
	<u>15,414</u>	<u>12,057</u>	<u>8,679</u>	<u>18,792</u>
Restricted donor and other grants				
MaRS Centre for Impact Investing (vi)	1,046	946	1,398	594
MaRS Solutions Lab	-	1,380	814	566
Other	490	476	524	442
	<u>1,536</u>	<u>2,802</u>	<u>2,736</u>	<u>1,602</u>
Partner payment grants				
Premier's Summit Award (vii)	7,263	(13)	4,680	2,570
Business Acceleration Program (ii)	-	8,816	5,149	3,667
Other	-	1,070	1,070	-
	<u>7,263</u>	<u>9,873</u>	<u>10,899</u>	<u>6,237</u>
	<u>24,213</u>	<u>24,732</u>	<u>22,314</u>	<u>26,631</u>
Less: Current portion				<u>15,302</u>
Long-term portion				<u>11,329</u>

MaRS Discovery District

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	2013			
	Opening balance \$	Funds received/ receivable \$	Recognized in operations \$	Ending balance \$
Restricted provincial grants				
Studio Y (i)	-	10,001	-	10,001
Data Catalyst (iv)	4,780	-	1,011	3,769
EXCITE (v)	1,132	-	403	729
Business Acceleration Program (ii)	-	4,044	3,894	150
Social Innovation Generation (iv)	-	1,000	1,000	-
MaRS Regional Innovation Centre (iv)	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 (vi)	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 (vii)	11,087	(14)	3,810	7,263
Business Acceleration Program (ii)	-	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>

- i) Studio Y (formerly 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) The Business Acceleration Program and new Youth Business Acceleration Program are funded by the Ministry of Economic Development and Innovation (Ontario) to support MaRS' core program activities, such as market intelligence and entrepreneurship education, as well as partner payment grants to Ontario Regional Innovation Centres.
- iii) The Advanced Energy Centre is a multi-year partnership between the organization and the Ministry of Energy, who has provided funding.
- iv) Restricted grants for the Data Catalyst (formerly ReSRC), Social Innovation Generation (SiG) and Regional Innovation Centre Programs are 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.

MaRS Discovery District

Notes to Financial Statements

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- v) 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 (vii).
- vi) The Centre for Impact Investing (CII) was incubated in the SiG and has launched into its own program. It is primarily funded through multi-year grants from private foundations and corporations.
- vii) 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 is restricted for distribution to grantees and to cover administration costs of the organization, as well as seed fund EXCITE (v).

13 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:

	2014					
	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	(8,305)	(9,342)	(4,944)	(2,932)	(2,206)	(27,729)
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, 2013	5,429	26,658	15,056	8,254	6,719	62,116
Funding recorded as income in the year ended March 31, 2014	(238)	(1,167)	(667)	(373)	(297)	(2,742)
Funding deferred as capital grants in statement of financial position as at March 31, 2014	5,191	25,491	14,389	7,881	6,422	59,374

MaRS Discovery District

Notes to Financial Statements

March 31, 2014

(in thousands of dollars, unless otherwise stated)

	2013					
	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, 2013	(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

14 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:

	2014	2013
	\$	\$
Endowment contributions	5,764	4,855
Restricted income - net of expenses	(75)	34
	<u>5,689</u>	<u>4,889</u>

15 Operating grant

In 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 during the term of the contract. In 2014, the funding agreement was extended for another 3 years to March 31, 2016 at the same annual rate of \$5 million or \$15 million total for the second term of the agreement.

MaRS Discovery District

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16 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:

	2014 \$	2013 \$
Donations and sponsorships	731	594
Restricted donor contributions	2,736	1,668
Endowment contributions (note 14)	875	1,771
	<hr/> 4,342	<hr/> 4,033

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.

17 Contingencies and commitments

There are currently ten recipients of the PSA with a cumulative amount of \$1,909 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.

The organization has a 5 year maintenance agreement for network and telecommunication infrastructure from June 2014 to June 2019 of yearly amounts of \$177.

The organization holds a head lease with Phase 2 Trust for approximately 120,000 square feet of rentable area in the new Phase 2 building. The terms of the lease are: commencement date of November 1, 2013, subject to fixturing period extension and a ten year term at yearly amounts of \$3,619 for years 1-5 and \$3,981 for years 6-10. MaRS has provided notification of its intention to surrender the rentable area in the lease to external mission-related companies and organizations who would then enter a lease directly with Phase 2 Trust. MaRS has not made any payments to Phase 2 Trust with respect to this lease.

18 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.

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19 Changes in working capital balance and other operational balances

	2014	2013
	\$	\$
Tenant and client receivables	524	(183)
Other receivables and prepayments	25	35
Due from/to related parties	1,816	(2,435)
Accounts payable and accrued liabilities	924	2,039
Restricted grants	2,343	5,583
	<hr/>	<hr/>
	5,632	5,039
	<hr/>	<hr/>

20 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 (2013 - \$nil) is included within accounts payable and accrued liabilities.

21 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.

22 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.

MaRS Discovery District

Notes to Financial Statements

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- 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.

23 Comparative figures

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