

# **MaRS Discovery District**

**Financial Statements**  
**March 31, 2018**



June 26, 2018

## **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, 2018 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, 2018 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, 2018**

(in thousands of Canadian dollars, unless otherwise stated)

	<b>2018</b>	<b>2017</b> (note 19)
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 3)	\$5,012	\$3,525
Restricted cash (note 3)	20,941	20,589
Receivables and prepayments (note 4)	2,959	2,076
Government receivables	3,055	1,150
Due from related parties (note 5)	1,261	916
	<hr/> \$33,228	<hr/> \$28,256
<b>Due from related parties</b> (note 5)	300	342
<b>Investments</b> (note 6)	590	590
<b>Restricted cash</b> (note 3)	9,669	9,804
<b>Investment in related parties</b> (note 7)	39,636	33,325
<b>Capital assets</b> (note 10)	1,468	1,829
	<hr/> \$84,891	<hr/> \$74,146
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$4,886	\$4,768
Deferred revenue	1,806	1,703
Restricted contributions (note 12)	20,863	17,795
	<hr/> \$27,555	<hr/> \$24,266
<b>Long term restricted contributions</b> (note 13)	\$9,669	\$9,804
<b>Net Assets</b>		
<b>Unrestricted</b>	\$6,563	\$4,922
<b>Internally restricted</b> (note 15)	41,104	35,154
	<hr/> \$47,667	<hr/> \$40,076
	<hr/> \$84,891	<hr/> \$74,146

**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, 2018**

(in thousands of Canadian dollars, unless otherwise stated)

	<b>2018</b>	<b>2017</b> (note 19)
<b>Revenues</b>		
Restricted provincial grants (note 12)	\$15,742	\$16,809
Restricted federal grants (note 12)	2,642	2,091
Restricted other grants and donations (note 12)	2,964	3,172
Sponsorship and partnership revenue	2,965	2,591
Professional fees	2,611	1,810
Events fees	1,904	1,987
Other income	1,402	1,617
Related party revenue (note 5)	902	791
Rental revenue (note 7)	-	8,795
Amortization of deferred capital contributions (notes 7 and 14)	-	2,336
	<hr/> 31,132	<hr/> 41,999
Partner payments (note 12)	14,123	8,456
	<hr/> <b>\$45,255</b>	<hr/> <b>\$50,455</b>
<b>Expenses</b>		
Employees and contractors	\$20,601	\$18,326
Program operating	5,812	6,375
Rent expense (note 5)	2,383	447
Outsourced services	3,063	3,218
Supplies	1,158	1,596
Administration and governance	672	555
Amortization	532	3,914
Property operating (note 7)	-	5,148
Interest (notes 7 and 11)	-	456
	<hr/> 34,221	<hr/> 40,035
Partner payments (note 12)	14,123	8,456
	<hr/> <b>\$48,344</b>	<hr/> <b>\$48,491</b>
	(\$3,089)	\$1,964
Income (loss) of related real estate parties (note 7)		
MaRS Phase 1 Investment Fund	\$4,420	-
MaRS Phase 2 Investment Fund	6,260	(\$2,179)
	<hr/> \$10,680	<hr/> (\$2,179)
<b>Net income (loss) for the year</b>	<hr/> <b>\$7,591</b>	<hr/> <b>(\$215)</b>

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, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

	<b>2018</b>		
	<b>Unrestricted</b>	<b>Internally restricted (note 15)</b>	<b>Total</b>
<b>Net assets – beginning of year</b>	\$4,922	\$35,154	\$40,076
Net income (loss) for the year	(3,089)	10,680	7,591
Distribution from related parties	4,369	(4,369)	-
Inter-fund transfer	361	(361)	-
<b>Net assets – end of year</b>	<b>\$6,563</b>	<b>\$41,104</b>	<b>\$47,667</b>

  

	<b>2017</b> (note 19)		
	<b>Unrestricted</b>	<b>Internally restricted (note 15)</b>	<b>Total</b>
<b>Net assets – beginning of year</b>	\$3,418	\$36,873	\$40,291
Net income (loss) for the year	1,964	(2,179)	(215)
Inter-fund transfer	(460)	460	-
<b>Net assets – end of year</b>	<b>\$4,922</b>	<b>\$35,154</b>	<b>\$40,076</b>

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

**MaRS Discovery District**  
**Statement of Cash Flows**  
**For the year ended March 31, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

	<b>2018</b>	<b>2017</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	\$7,591	(\$215)
Items not affecting cash		
(Income) loss of related parties	(10,680)	2,179
Amortization of capital assets	532	3,914
Amortization of deferred capital contributions	-	(2,336)
Changes in working capital balances (note 17)	2,985	3,910
	<hr/> \$428	<hr/> \$7,452
<b>Financing activities</b>		
Distribution from related parties	\$1,400	-
Receipt of long-term restricted grants	-	\$1,675
Repayment of loan to related party (note 5)	47	
Repayment of loans and mortgages (note 11)	-	(744)
	<hr/> \$1,447	<hr/> \$931
<b>Investing activities</b>		
Net change in restricted cash	(\$217)	(\$8,694)
Additions to capital assets	(171)	(1,294)
	<hr/> (\$388)	<hr/> (\$9,988)
<b>Increase (decrease) in cash during the year</b>	<hr/> \$1,487	<hr/> (\$1,605)
<b>Cash – beginning of year</b>	<hr/> \$3,525	<hr/> \$5,130
<b>Cash – end of year</b>	<hr/> <b>\$5,012</b>	<hr/> <b>\$3,525</b>
<b>Supplementary disclosure:</b>		
Net contribution of capital assets to related party (note 7)	-	\$53,879

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

# MaRS Discovery District

## Notes to Financial Statements

### March 31, 2018

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(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

### March 31, 2018

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(in thousands of Canadian dollars, unless otherwise stated)

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. 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 General Partner L.P. The MaRS Catalyst Fund General Partner L.P. 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.

##### MaRS 101 Investments Inc.

MaRS owns 100% of MaRS 101 Investments Inc., an Ontario for-profit company that owns 100% of StandUp General Partner Inc. and holds a limited partnership interest in StandUp General Partner L.P. StandUp General Partner Inc. is an Ontario for-profit corporation that acts as the general partner to the StandUp General Partner L.P. The StandUp General Partner L.P. acts as the general partner to the StandUp Ventures L.P. The StandUp Ventures LP was established in May 2017 for the purpose of investing in high growth technology ventures led by women entrepreneurs.

## **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**

##### Grants and donations

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, and interest earned on the funds, 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.

# MaRS Discovery District

## Notes to Financial Statements

### March 31, 2018

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(in thousands of Canadian dollars, unless otherwise stated)

#### Sponsorship and partnership

Sponsorship and partnership revenue is recognized over the period of the sponsorship, which may be for a period of time or a specific event. Sponsorship and partnership revenue received in advance of being earned is recorded as deferred revenue.

#### Professional and events fees

Professional and events fees are recognized when the service has been provided. Deposits received for events are recorded as deferred revenue.

#### Other income

Other income includes distributions received from investments as well as unrestricted interest income which is recognized as revenue when earned.

#### 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 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:

Leasehold improvements	8 years
Furniture and fixtures	5-10 years
Equipment	2-10 years
Software	3-5 years

#### **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.

**MaRS Discovery District**  
**Notes to Financial Statements**  
**March 31, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

**Financial instruments**

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

**3. Cash and restricted cash**

Cash represents cash in the bank and savings accounts without restrictions. Restricted cash comprises cash in the bank and savings accounts that is held for restricted contributions, both program grants and donations (note 12 and 13).

**4. Receivables and prepayments**

	<b>2018</b>	<b>2017</b>
Receivables net of allowance for doubtful accounts of \$203 (2017 - \$249)	\$2,273	\$1,748
Prepaid expenses	686	328
	<b>\$2,959</b>	<b>\$2,076</b>

**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 \$219 (2017 – \$37) for information technology support, accounting, human resources and project management. MaRS has agreements with Phase 1 Trust for the lease of collaboration (event) rooms and office space. The organization paid rent to Phase 1 Trust in the amount of \$2,321 (2017 – \$431) during the year. Phase 1 declared a capital distribution of \$2,752 to MaRS DD (as unitholder) during the year which was offset against the rent charged.

The organization provided services to Phase 2 Trust in the amount of \$269 (2017 - \$360) for information technology support, accounting, and human resources.

The organization provided services to IAF in the amount of \$142 (2017 - \$281). The services provided included information technology support, accounting, human resources and other general and administrative expenses. In 2017, the services also included rent which is now provided by Phase 1 Trust.

The organization paid an operating fee of \$632 (2017 - \$539) to MaRS VX to operate the SVX and provided services to MaRS VX in the amount of \$137 (2017 - \$113). 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 \$223 (2017 - \$304).

MaRS also provided management services to the Catalyst Fund in the amount of \$117 (2017 – nil) and accounting services to StandUp General Partner in the amount of \$18 (2017 – nil).

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,

**MaRS Discovery District**  
**Notes to Financial Statements**  
**March 31, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

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 and has a repayment date of June 2020. During the year \$47 (2017 – nil) was repaid.

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

	<b>2018</b>	<b>2017</b>
<b>Current (non-interest bearing)</b>		
Due from (to) Phase 1 Trust	\$962	(\$212)
Due from Phase 2 Trust	165	804
Due from IAF	114	183
Due (to) from MaRS VX	(118)	141
Due from the Catalyst Fund	120	-
Due from StandUp General Partner	18	-
	<b>\$1,261</b>	<b>\$916</b>
<b>Non-current</b>		
Subordinated loan due from MaRS VX	\$70	\$70
Loan due from MDSI	230	272
	<b>\$300</b>	<b>\$342</b>

**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 \$100 (2017 – \$951) was paid to MaRS during the year and has been included in other income.

**MaRS Discovery District**  
**Notes to Financial Statements**  
**March 31, 2018**

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(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, 2016	-	\$33,102	\$33,102
Net assets transferred	\$53,879	-	53,879
Deferred capital contributions related to net assets transferred (note 14)	(51,477)	-	(51,477)
Loss of Phase 2 Trust	-	(2,179)	(2,179)
	<hr/>		
Balance March 31, 2017	2,402	30,923	33,325
Net income	4,420	6,260	10,680
Distributions	(4,369)	-	(4,369)
	<hr/>		
<b>Balance, March 31, 2018</b>	<b>\$2,453</b>	<b>\$37,183</b>	<b>\$39,636</b>

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) were 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
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<b>Net assets transferred</b>	<b>\$53,879</b>

**MaRS Discovery District**  
**Notes to Financial Statements**  
**March 31, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for Phase 1 and Phase 2 Trust's as at and for the fiscal years ending December 31 are as follows:

	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Assets	\$489,540	\$344,506
Liabilities	\$391,344	\$305,852
Unitholder's equity	\$98,196	\$38,654
Revenue	\$55,886	\$29,053
Expenses	\$58,023	\$31,776
Net income inclusion related to Phase 2 debt refinancing	\$11,578	-
Cash flow from operating activities	\$3,620	\$5,583
Cash flow from financing activities	\$76,919	(\$7,015)
Cash flow from investing activities	(\$78,204)	(\$13,152)

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for Phase 1 and Phase 2 Trusts' as at and for the quarter ending March 31, 2018 are as follows:

	<b>March 31</b>
Assets	\$484,869
Liabilities	\$387,479
Unitholder's equity	\$97,390
Revenue	\$15,292
Expenses	\$15,506
Cash flow from operating activities	\$1,546
Cash flow from financing activities	(\$3,611)
Cash flow from investing activities	\$6,122

**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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**Notes to Financial Statements**  
**March 31, 2018**

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(in thousands of Canadian dollars, unless otherwise stated)

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:

	<b>2018</b>	<b>2017</b>
Assets	\$72,169	\$64,840
Liabilities	\$72,169	\$64,840
Operating revenue	\$2,262	\$2,272
Operating expenses	\$2,262	\$2,328
Cash flow from operating activities	(\$120)	(\$200)
Cash flow from financing activities	-	-
Cash flow from investing activities	\$6,031	\$1,739

**9. MaRS VX**

MaRS VX operates the Social Venture Exchange (SVX). The SVX, operating under the regulations of the Ontario Securities Commission, is an impact investing platform for ventures, funds and investors seeking social and/or environmental impact alongside the potential for financial return. SVX provides a single access point for raising capital and making investments. SVX works across sectors including cleantech, health, work and learning, food, and social inclusion, providing support to enterprises focused on early cancer detection to community power co-operatives producing renewable energy. SVX works to help them raise capital so they can focus on their business. SVX works with all investors, from foundations and family offices to everyday investors, to help them identify opportunities and to support their decision-making efforts so they can match their money with meaning. Other activities include broader systems-level work through partnering with government and other entities in advancement of innovation agendas, including informing and assisting with policy development relating to best practices for supporting and funding the growth of innovative ventures

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:

	<b>2018</b>	<b>2017</b>
Assets	\$265	\$341
Liabilities	\$193	\$273
Net assets	\$72	\$68
Revenue	\$795	\$910
Expenses	\$790	\$890
Cash flow from operating activities	(\$67)	\$11
Cash flow from financing activities	-	-
Cash flow from investing activities	-	(\$74)

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**10. Capital assets**

	<b>2018</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Furniture and fixtures	\$1,878	\$1,753	\$125
Equipment	834	701	133
Software	2,452	1,475	977
Leasehold improvements	269	36	233
	<b>\$5,433</b>	<b>\$3,965</b>	<b>\$1,468</b>

  

	<b>2017</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Furniture and fixtures	\$1,878	\$1,719	\$159
Equipment	834	590	244
Software	2,397	1,114	1,283
Leasehold improvements	153	10	143
	<b>\$5,262</b>	<b>\$3,433</b>	<b>\$1,829</b>

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**11. Loans and mortgages payable**

The organization had a mortgage and term loan that 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, 2018 (2017 – 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.

**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.

	<b>Province of Ontario</b>	<b>Government of Canada</b>	<b>Other funders</b>	<b>Partner payments</b>	<b>Total</b>
Balance, March 31, 2016	\$10,130	-	\$938	\$821	\$11,889
Funds received during the year	14,167	\$2,091	5,041	15,135	36,434
Recognized as revenue	(16,809)	(2,091)	(3,172)	(8,456)	(30,528)
Balance March 31, 2017	7,488	-	2,807	7,500	17,795
Funds received during the year	14,162	2,877	3,943	17,557	38,539
Recognized as revenue	(15,742)	(2,642)	(2,964)	(14,123)	(35,471)
<b>Balance, March 31, 2018</b>	<b>\$5,908</b>	<b>\$235</b>	<b>\$3,786</b>	<b>\$10,934</b>	<b>\$20,863</b>

The Province of Ontario, through the Ministry of Research, 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 \$40,000 over the eight-year period ended March 31, 2018. MaRS has received a funding agreement extension to March 31, 2020 for a further \$10,000 (\$5,000 each year).

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

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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. (note 13)

The partner payment programs include the Ontario Regional Innovations Centres (managed by the Business Acceleration Programs), Ontario Voucher and Growth Coach funding (managed by Ontario Scale-Up Vouchers Program), research funding (managed by the EXCITE program), travel assistance for firms enrolled in the CAIP program and wage subsidies for firms enrolled in the Student Work Integrated Learning Program.

**13. Long-term restricted contributions**

The organization has received long-term restricted contributions to support the MaRS Solutions Lab, a program dedicated to using new approaches to solve elusive societal problems. This funding was originally characterized as an endowment fund but the agreement with the funders provides that both income and capital can be used to support the program over time with the agreement of the Solutions Lab Steering Committee (note 19). During the year, \$135 (2016 - \$300) was used by the program.

**14. 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 were recorded against the investment in Phase 1 Trust which arose on the transfer of the capital assets (note 7).

	<b>College of Founders</b>	<b>Ontario Funders</b>	<b>Government of Canada</b>	<b>Total</b>
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	-	-	-	-

**15. Internally restricted net assets**

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

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**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.

**17. Changes in working capital balances**

	<b>2018</b>	<b>2017</b>
Receivables and prepayments	(\$883)	(\$409)
Government receivables	(1,905)	(46)
Due from/to related parties	2,619	(532)
Accounts payable and accrued liabilities	118	(1,097)
Deferred revenue	103	388
Restricted contributions	2,933	5,606
	<hr/> <b>\$2,985</b>	<hr/> <b>\$3,910</b>

**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 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.

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**19. Comparative figures**

Revenue

Revenue categories on the statement of operations have been reclassified to conform with the current year's financial statement presentation.

	<b>Original</b>	<b>Revised</b>
Restricted other grants and donations	\$5,989	\$3,172
Sponsorship and partnership revenue	-	\$2,591
Professional fees	-	\$1,810
Events fees	\$1,706	\$1,987
Other income	\$3,482	\$1,617

In addition, sponsorship and partnership revenues of \$1,552 that had been received in advance of being earned have been reclassified from restricted contributions to deferred revenue. Deposits on events of \$151 have been reclassified from accounts payable and accrued liabilities to deferred revenue.

Long-term restricted contributions (note 13)

Restricted contributions that had previously been characterized as an endowment fund have been reclassified as long-term restricted contributions. The restricted endowment balance of \$9,804 that was previously included in net assets on the statement of financial position is now shown as long-term restricted contributions. Correspondingly, the restricted endowment balances have been removed from the statement of changes in net assets.