a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

REPORT TO THE BOARD OF GOVERNORS
Agenda Item #3.21b

SUBJECT	**UBC PROPERTIES INVESTMENTS LTD | FINANCIAL STATEMENTS MARCH 31, 2015**
MEETING DATE	**DECEMBER 3, 3015**
APPROVED FOR SUBMISSION	Forwarded to the Board of Governors on the Recommendation of the President Martha Piper Martha C. Piper, Interim President and Vice-Chancellor
DECISION REQUESTED	**For Information**
Report Date	October 26, 2015
Presented By	Andrew Simpson, Vice-President Finance Ian Burgess, Comptroller Al Poettcker, President & CEO, UBC Properties Trust

EXECUTIVE SUMMARY

UBC Properties Investments Ltd's ("UBCPIL") Board of Directors has approved the audited financial statements for the year ended March 31, 2015. The financial statements were prepared by UBCPIL management and have been audited by Deloitte LLP.

UBCPIL is the trustee of the UBC Properties Trust ("UBCPT") and operates with a Board of Directors currently comprising eight outside directors and three members of the UBC Administration, including the President of UBC. The company reports to UBC through the Vice-President Finance.

Full audited financial statements are attached.

UBCPT is a private trust created on June 9, 1999 (its predecessor was UBC Properties Inc., a wholly owned subsidiary formed in 1988) under the laws of the Province of British Columbia to carry out real estate development activities on behalf of The University of British Columbia ("UBC"). The mandate of UBCPT, as approved by the UBC Board of Governors, is to:

1. Design and install services in neighborhoods and lease land to third party developers on the basis of 99-year pre-paid leases.
2. Develop, finance, lease and manage rental housing and retail services within the neighborhoods to assist in meeting the objectives set out in the Land Use Plan.
3. Provide project management for the construction of UBC owned and managed institutional buildings for the Point Grey and Okanagan campuses. This activity includes all student housing projects for Student Housing and Hospitality Services.
4. When requested by UBC, assist the University in its off campus activities (role is mostly advisory).
5. Initiate special housing projects for employees working on the Vancouver campus either for the University or for third parties with facilities at the University (ex. University Hospital, TRIUMF, etc.).
6. Act as agent for the UNA in managing third party service providers for maintenance and repair of the public areas in the various Neighborhoods.

During the 2014-2015 fiscal year, UBCPT leased one market housing site to Polygon Homes for $44.5 million. In addition, UBCPT received $5.9 million in profit participation from the Sail project (Adera) and $2.2 million from the Academy project (Polygon). UBCPT also earned development management fees in the amount of $4.2 million from UBC relating to the development of UBC capital projects.

The rental revenues increased from $25.3 million to $27.9 million. The increase is primarily attributable to higher occupancy in the retail/commercial buildings (TEF, Mews, Wesbrook Professional Centre) and a full year of occupancy in Vista Point (the building was completed and occupied in November 2013). The rental portfolio consists of 373 faculty and staff units, 382 market units, 219 student units and approximately 296,000 square feet of office/retail/research space.

During the year, UBCPT had new construction borrowings with UBC Treasury in the amount of $18.5 million (Nobel House and Aquatic Centre) and ongoing servicing loans for the Wesbrook neighborhood of $7.5 million. Offsetting these were construction loan repayments of $24 million relating to Vista Point and $5 million on the Wesbrook Professional Centre. UBCPT also borrowed $1.9 million from Treasury for the purchase of the retail space in the Yu building. There was only one new term mortgage secured for the year - $24 million from Sun Life for Vista Point. The weighted average rate of long-term debt is 4.77% with an average term to maturity of 12 years.

The Company made distribution payments to UBC throughout the year totalling $67 million.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

☐ **Learning** ☐ **Research** ☐ **Innovation** ☐ **Engagement (Internal / External)** ☐ **International**

or ✔ **Operational**

DESCRIPTION & RATIONALE	UBC is required to prepare audited consolidated financial statements on an annual basis, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. The financial statements of UBC Properties Investments Inc. are included in the audited consolidated financial statements of UBC, using the equity method.
BENEFITS Learning, Research, Financial, Sustainability & Reputational	UBC is ranked amongst the best worldwide and is regarded as a globally influential university with a reputation for excellence in advanced research and learning. Ensuring that the operating activities of related organizations are aligned with the University's objectives, and that the financial statements of related organizations are included in the consolidated financial statements in accordance with the required accounting framework, would continue to support the University in maintaining its reputation and credibility.
RISKS Financial, Operational & Reputational	In light of funding constraints and continuing changes to the relevant accounting standards, it is imperative to ensure that the financial statements of related organizations are included in the consolidated financial statements in accordance with the required accounting framework. Otherwise it may result in further financial pressures, restrictions on the University's ability to maintain required service levels, negative impacts to the University's reputation, in addition to other risks.

Consolidated financial statements of

UBC Properties Investments Ltd.

March 31, 2015

UBC Properties Investments Ltd.
March 31, 2015

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Independent Auditor's Report

To the Shareholder of
UBC Properties Investments Ltd.

We have audited the accompanying consolidated financial statements of UBC Properties Investments Ltd. which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of UBC Properties Investments Ltd. as at March 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
May 21, 2015
Vancouver, British Columbia

UBC Properties Investments Ltd.

Consolidated statement of income and comprehensive income
year ended March 31, 2015

	2015	2014
	$	$
Land sales		
Revenue	**44,558,775**	35,941,394
Participation revenue (Note 12)	**8,079,104**	40,638,301
	52,637,879	76,579,695
Cost of sales (Notes 10 (b) and (c))	**(15,825,425)**	(12,574,847)
	36,812,454	64,004,848
Rental operations		
Revenue	**27,964,450**	25,331,338
Amortization	**(7,564,310)**	(7,183,124)
Operating expenses	**(6,417,302)**	(5,746,457)
	13,982,838	12,401,757
Other income (expense)		
Management fees (Note 10 (a))	**4,207,726**	3,331,190
General and administration expenses	**(5,967,906)**	(5,682,056)
Other revenue	**117,638**	148,740
	(1,642,542)	(2,202,126)
Net income before finance costs	**49,152,750**	74,204,479
Finance costs, net (Note 8)	**(9,815,800)**	(9,686,852)
Change in fair value of derivatives	**(3,088,837)**	1,486,000
Net income and comprehensive income	**36,248,113**	66,003,627

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

UBC Properties Investments Ltd.

Consolidated statement of changes in equity
year ended March 31, 2015

	Share capital	Retained earnings	Total equity
	$	$	$
Balance, March 31, 2013	100	27,583,420	27,583,520
Net income and comprehensive income	-	66,003,627	66,003,627
Distributions declared to shareholder	-	(27,340,314)	(27,340,314)
Balance, March 31, 2014	100	66,246,733	66,246,833
Net income and comprehensive income	-	36,248,113	36,248,113
Distributions declared to shareholder	-	(96,665,683)	(96,665,683)
Balance, March 31, 2015	**100**	**5,829,163**	**5,829,263**

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

UBC Properties Investments Ltd.

Consolidated statement of financial position
as at March 31, 2015

	2015	2014
	$	$
Assets		
Current assets		
Cash and cash equivalents	**17,291,559**	49,746,297
Investments	**370,100**	489,564
Funds held in trust	**-**	52,567
Deposits held in trust	**-**	4,453,457
Due from related parties (Note 7)	**42,697,053**	27,569,518
Amounts receivable	**5,290,521**	7,938,144
Properties under development and held for sale (Note 5)	**2,939,115**	8,839,393
	68,588,348	99,088,940
Investments	**945,020**	357,128
Amounts receivable	**2,277,748**	1,052,778
Equipment and leasehold improvements	**531,166**	159,593
Properties under development and held for sale (Note 5)	**33,641,957**	34,685,362
Investment properties (Note 6)	**268,845,033**	250,543,854
	374,829,272	385,887,655
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**25,368,455**	19,186,733
Derivatives (Notes 8 and 13)	**4,037,501**	948,664
Due to related party (Note 9)	**2,226,243**	8,683,360
Deposits on real estate assets	**-**	4,453,457
Holdbacks payable	**15,181,478**	5,796,371
Distributions payable to UBC (Note 9)	**70,660,212**	40,642,473
Current portion of loans payable (Note 8)	**57,067,536**	67,987,126
	174,541,425	147,698,184
Loans payable (Note 8)	**194,458,584**	171,942,638
	369,000,009	319,640,822
Shareholder's equity		
Share capital		
Authorized		
100,000 common shares, without par value		
Issued		
100 common shares	**100**	100
Retained earnings	**5,829,163**	66,246,733
	5,829,263	66,246,833
	374,829,272	385,887,655

Approved by the Board

Director

Director

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

UBC Properties Investments Ltd.
Consolidated statement of cash flows
year ended March 31, 2015

	2015	2014
	$	$
Operating activities		
Net income	**36,248,113**	66,003,627
Items not involving cash		
Amortization of equipment and leasehold improvements	**161,840**	73,328
Amortization of investment properties	**8,191,507**	7,568,054
Loss on disposal of equipment and leasehold improvements	**68,400**	21,429
Finance costs expensed	**9,815,800**	9,686,852
Change in fair value of derivatives	**3,088,837**	(1,486,000)
	57,574,497	81,867,290
Changes in non-cash operating working capital		
Amounts receivable	**1,543,200**	21,753,954
Accounts payable and accrued liabilities	**6,106,946**	(3,068,230)
Holdbacks payable	**9,385,107**	(2,564,476)
Funds held in trust, net	**52,567**	4,340
	74,662,317	97,992,878
Recovery of property under development and held-for-sale	**15,825,425**	12,574,847
Expenditures on properties under development and held-for-sale	**(8,881,742)**	(20,040,086)
	81,606,000	90,527,639
Investing activities		
Expenditures on investment properties	**(26,556,220)**	(18,370,159)
Proceeds from (purchase of) investments	**(468,429)**	178,610
Purchase of equipment and leasehold improvements	**(538,277)**	(9,624)
Due from related parties	**(15,127,536)**	5,221,535
Finance income received	**275,934**	148,778
	(42,414,528)	(12,830,860)
Financing activities		
Restricted cash	**-**	3,204,317
Distributions to UBC	**(66,647,943)**	(62,790,755)
Due to related parties	**(6,457,117)**	2,314,122
Proceeds from loans payable	**56,690,218**	27,010,000
Repayment of loans payable	**(44,659,530)**	(10,150,769)
Finance interest paid	**(9,802,202)**	(9,580,522)
Transaction costs paid	**(769,636)**	(2,445)
	(71,646,210)	(49,996,052)
(Decrease) increase in cash and cash equivalents	**(32,454,738)**	27,700,727
Cash and cash equivalents, beginning of year	**49,746,297**	22,045,570
Cash and cash equivalents, end of year	**17,291,559**	49,746,297

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

1. Nature of operations

UBC Properties Investments Ltd. (the "Company") was created on January 20, 1999 under the Business Corporations Act of British Columbia. The Company is the trustee of UBC Properties Trust (the "Trust"), an entity that develops, owns and operates a diversified portfolio of residential, mixed use and commercial properties on behalf of the Company's sole shareholder, the University of British Columbia ("UBC").

The Company's registered office is located at Suite 200 – 3313 Shrum Lane, Vancouver, British Columbia, V6S 0C8. Pursuant to the terms of the Trust deed, the Trustee is required to allocate the Trust's taxable income to the beneficiaries of the Trust as distributions. As the Company has no other business activities other than acting as trustee of the Trust and no other income, there is no provision for income taxes in these consolidated financial statements.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 21, 2015.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which have been measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(d) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company has control. Subsidiaries are consolidated from the date the Company obtains control, and continue to be consolidated until the date when such control ceases. Non-controlling interests in the equity of the Company's subsidiaries are included within equity on the consolidated statement of financial position. All intercompany balances, transactions, and unrealized gains and losses are eliminated on consolidation.

The following is a list of the Company's subsidiaries, indicating the jurisdiction of incorporation and the percentage owned, or over which control or direction is otherwise exercised directly or indirectly, by the Company:

	Jurisdiction of formation	Voting control
		%
UBC Properties Trust	British Columbia, Canada	100
0954909 B.C. Ltd.	British Columbia, Canada	100

2. Basis of presentation (continued)

(e) Significant accounting judgments, estimates, and assumptions

The preparation of consolidated financial statements requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies used and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements.

The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

(i) Investment properties

The Company's accounting policies relating to investment properties are described in Note 3(b). In applying these policies, judgment is required in determining whether certain costs are additions to the carrying amount of the property, identifying the point at which the property is completed and when financing costs cease to be capitalized. In addition, judgment is required in determining the degree of componentization for each property and the useful lives of those components. The major components are separately amortized estimates based on the useful lives and residual values of the Company's long-lived assets.

(ii) Development costs

Development costs of investment properties under development and properties under development and held for sale are capitalized in accordance with the accounting policy in Notes 3(a) and (b). Initial capitalization of costs is based on management's judgment that the development project is an active development. Judgment is required when determining the total costs to be incurred in the neighbourhood and the amount to be allocated to any one specific development site. In addition, judgement is required when determining whether financing costs can be capitalized to a property under development, when financing costs cease and if the capitalized costs will be recoverable from future cash flows.

(iii) *Fair value of investment properties*

The fair value of investment properties is determined by management, in conjunction with independent real estate valuation experts using recognized valuation techniques. Critical assumptions and estimates are required when determining discounted future cash flows including rental income and associated costs; costs to complete projects under construction; and market capitalization rates. The fair value of investment properties is provided in Note 6.

3. Significant accounting policies

(a) Properties under development and held for sale

Properties under development and held for sale comprise both properties being developed for future sale and completed properties held for future sale, and are measured at the lower of cost and net realizable value. Costs include all pre-construction costs essential to the development of the property, construction costs, direct and indirect borrowing costs, real estate taxes and other costs incurred during the period of development. The amount of financing costs capitalized is determined first by reference to financing specific to the project, where relevant, and otherwise by applying a weighted average cost of financing to eligible expenditures.

Capitalization of costs continues until the development is complete and ready for sale.

3. Significant accounting policies (continued)

(a) Properties under development and held for sale (continued)

Expenditures of a phased project and costs associated with obtaining and implementing the Land Use Plan are apportioned to each property according to the percentage that its estimated buildable square feet bears to the total estimated buildable square feet of the entire project. Construction expenditures are allocated to each property on a specific identification basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete the development and estimated selling costs.

(b) Investment properties

Investment property is defined as property held to earn rental income, capital appreciation, or both. Investment properties comprise properties under development for future use as investment properties and income producing investment properties. Investment properties are measured at cost less accumulated amortization and any accumulated impairment losses. Cost is allocated to significant components and amortized on a straight-line basis over the useful life of each component.

(i) Costs

For investment properties under development, capitalized costs include all pre-construction costs essential to the development of the property, construction costs, direct and indirect financing costs, real estate taxes and other costs incurred during the period of development. The amount of financing costs capitalized is determined first by reference to financing specific to the project, where relevant, and otherwise by applying a weighted average cost of financing to eligible expenditures.

Capitalization of costs continues until the development is complete and all the necessary occupancy and related permits have been received. If the Company is required as a condition of a lease to construct significant tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed.

Capitalized expenditures of a phased project and costs associated with obtaining and implementing the Land Use Plan (professional and planning fees) are apportioned to each property according to the percentage that its estimated buildable square feet bears to the total estimated buildable square feet of the entire project. Construction expenditures are allocated to each property on a specific identification basis.

For properties acquired, cost may include intangible assets which is the value attributable to in-place lease agreements with existing tenants. Intangible assets are amortized over the remaining term of the in-place lease.

Repairs and maintenance costs are expensed as incurred or, in the case of major items that constitute a capital asset, are capitalized and amortized on a straight-line basis over the expected useful life of the asset.

(ii) Amortization

The significant components of investment properties and their related useful lives are as follows.

Significant component	Useful life (years)
Building	30-40
Heating, ventilation, air conditioning and cooling systems	25
Windows	15-20
Elevator	25
Roof	10-20

3. Significant accounting policies (continued)

(b) Investment properties (continued)

(ii) *Amortization (continued)*

The Company reviews the useful lives and residual values on an annual basis and, if necessary, changes are accounted for prospectively.

(iii) *Fair value*

Note 6 discloses the investment properties' fair value. The following approaches, either individually or in combination, are used by management, together with appraisers, in their determination of the fair value of investment properties:

- The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate to those cash flows.
- The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject property and adjusting for any significant differences between them.

When management obtains an independent appraisal of a property, they review it and ensure the assumptions used by the appraiser are reasonable. The fair value amounts disclosed in Note 6 reflect the assumptions used in the approaches above.

(c) Impairment

(i) *Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset.

Objective evidence that a financial asset is impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Should a subsequent change in circumstance result in the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss in the period of change.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets consisting of investment properties and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. Significant accounting policies (continued)

(c) Impairment (continued)

(ii) *Non-financial assets* *(continued)*

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(d) Cash and cash equivalents

The Company considers all highly liquid investments and deposits with terms to maturity of three months or less when acquired to be cash equivalents.

(e) Funds held-in-trust

Certain of the Company's projects operate under construction management agreements whereby the contractor is responsible for collecting and distributing construction holdbacks. The holdbacks are funded by cash deposited into joint bank accounts which are under the contractor's direct management.

(f) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life on the declining-balance basis at a rate of 30% per annum for equipment and straight-line over the lease term for leasehold improvements.

(g) Revenue recognition

(i) *Land sales*

Sales of prepaid land leases are recognized as revenue when the agreement for sale has been entered into, an appropriate down payment has been received and all conditions of the agreement have been met including the transfer of the risks and rewards of ownership of the lease. For those prepaid lease transactions that contain a participation feature, revenue is recognized when funds are received or receivable and collection is reasonably assured.

(ii) *Management fees*

The Company earns fees for managing the construction of projects both on and off the UBC campus. In addition, the Company earns fees pertaining to landscape maintenance in the residential neighborhoods on the UBC campus. The fees are generally billed on a fixed percentage basis of costs incurred, and are recognized as services are rendered.

(iii) *Rental operations*

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue from an investment property is recognized when the property is ready for its intended use. Investment properties are considered to be ready for their intended use when the property is capable of operating in the manner intended by management, which generally occurs upon completion of construction and receipt of all occupancy and other material permits.

3. Significant accounting policies (continued)

(g) Revenue recognition (continued)

(iii) Rental operations (continued)

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, is recorded as the difference between the amount of rental revenue recorded and the contractual amount received.

Property rental revenue includes rental revenue earned and operating expenses and property tax reimbursements or recoveries earned under lease agreements with tenants.

(h) Financial instruments

All financial instruments are measured at fair value on initial recognition and their measurement in subsequent periods depends on the instrument's classification. Financial instruments are classified into one of five categories and, depending on the category, will either be measured at amortized cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Financial assets and liabilities classified as fair value through profit and loss and available-for-sale financial assets are measured at fair value. The Company classifies cash and cash equivalents, amounts receivable, due from related parties, funds held in trust, deposits held in trust, and investments as loans and receivables. Accounts payable and accrued liabilities, deposits, loans payable, holdbacks payable, distributions payable to UBC, deposits on real estate assets, and due to related parties are classified as other financial liabilities.

The Company holds several derivative financial instruments in the form of interest rate swap contracts that the Company has entered into to manage the exposure to market risks from changing interest rates. As derivatives do not qualify for hedge accounting, the Company has classified these instruments at fair value through profit and loss. Changes in the fair value of the interest rate swap contracts and payments and receipts under the interest rate swap contracts, are recognized in the statement of income and comprehensive income.

Finance costs comprise interest expense on borrowings, fair value changes in the derivatives and amortization of financing costs. Financing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit and loss using the effective interest method.

(i) Finance income and finance costs

Finance income comprises interest income from investments and is recognized in the period which it is earned.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Adoption of new accounting standards

The Company adopted the following new and amended accounting standards retrospectively in its financial statements for the annual period beginning on April 1, 2014:

- IFRIC 21 *Levies*
- Amendments to IFRS 10, IFRS 12, and IAS 27 *Investment Entities*
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to IAS 39 *Financial Instruments: Recognition and measurement*

3. Significant accounting policies (continued)

(k) Adoption of new accounting standards (continued)

The adoption of the above accounting standards did not have a material impact on the consolidated financial statements.

(l) New standards and interpretations not yet adopted

(i) Effective for annual periods beginning on or after January 1, 2016

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

  The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations.*

(ii) Effective for annual periods beginning on or after January 1, 2016

- Amendments to IAS 16 and IAS 38 *Acceptable Methods of Depreciation and Amortization*

  The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

(iii) Effective for annual periods beginning on or after January 1, 2018

- New standard IFRS 15 *Revenue from Contracts with Customers*

  IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(iv) Effective for annual periods beginning on or after January 1, 2018

- New standard IFRS 9 *Financial Instruments*

  IFRS 9 introduces new requirements for classifying and measuring financial assets and is a partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement.*

A detailed analysis of the possible applicability and potential effect of the pronouncements included above has not yet been performed by the Company.

4. Land development agreement

On October 26, 2006, the Company entered into a land development agreement with UBC to lease certain lands for a term of 99 years. The agreement was amended on January 10, 2015 to extend the expiry date of the remaining lot leases to December 31, 2030 and to add additional lots for lease. As part of the amended agreement, payments of $1,309,000 (2014 - $990,000) per acre or portion thereof are payable to UBC on the closing of the sale of an individual lot lease. During the year ended March 31, 2015, one lot (2014 - one lot) was sold to a third party and the appropriate amount was paid to UBC in accordance with the agreement.

5. Properties under development and held-for-sale

During the year the Company capitalized financing costs of $278,920 (2014 - $216,936) to properties under development and held for sale. Property under development with a carrying value of $15,348,862 (2014 - $12,574,847) were charged to cost of sales relating to sale of land leases. The fair market value of the properties under development is estimated at $247,180,000 (2014 - $324,857,000) with a carrying value of $36,581,072 (2014 - $43,524,755).

6. Investment properties

The Company's investment properties are all located within the UBC campus.

	2015	2014
	Net book value	Net book value
	$	$
Residential	**105,035,377**	108,996,470
Mixed use	**75,237,602**	76,160,098
Commercial	**42,316,910**	41,568,461
	222,589,889	226,725,029
Under development	**46,255,144**	23,818,825
	268,845,033	250,543,854

The carrying amounts of the Company's investment properties are reconciled as follows:

	2015		2014	
	Income-producing	**Under development**	Income-producing	Under development
	$	**$**	$	$
Opening balance				
Buildings	**198,521,667**	**23,818,825**	181,617,475	34,945,005
Significant components	**28,203,362**	**-**	23,113,102	-
Intangible assets	**-**	**-**	87,598	-
	226,725,029	**23,818,825**	204,818,175	34,945,005
Transfers	**-**	**-**	27,493,299	(27,493,299)
Capital additions				
Buildings	**2,349,915**	**22,436,319**	212,808	16,367,119
Significant components	**1,769,987**	**-**	1,790,230	-
	4,119,902	**22,436,319**	2,003,038	16,367,119
Capital disposals				
Significant components	**(63,535)**	**-**	(21,429)	-
	(63,535)	**-**	(21,429)	-
Amortization expense				
Buildings	**(6,037,824)**	**-**	(5,712,134)	-
Significant components	**(2,153,683)**	**-**	(1,768,322)	-
Intangible assets	**-**	**-**	(87,598)	-
	(8,191,507)	**-**	(7,568,054)	-
	222,589,889	**46,255,144**	226,725,029	23,818,825
		268,845,033		250,543,854

6. Investment properties (continued)

The fair values of the Company's investment properties are as follows:

	2015	2014
	Fair value	Fair value
	$	$
Residential	**328,339,000**	274,954,000
Mixed use	**138,507,000**	132,035,000
Commercial	**89,709,000**	86,973,000
	556,555,000	493,962,000
Under development	**164,686,000**	111,617,000
	721,241,000	605,579,000

The capitalization rates used to determine the fair value of the investment properties are presented in the following table:

	2015	2014
	%	%
Residential		
Maximum	**4.00**	4.00
Minimum	**4.00**	4.00
Weighted average	**4.00**	4.00
Mixed use		
Maximum	**5.50**	5.50
Minimum	**4.00**	4.00
Weighted average	**4.45**	4.43
Commercial		
Maximum	**5.50**	5.50
Minimum	**5.50**	5.50
Weighted average	**5.50**	5.50

7. Due from related parties

	2015	2014
	$	$
UBC (a)	**42,459,745**	27,427,916
University Neighbourhood Association (b)	**237,308**	141,602
	42,697,053	27,569,518

(a) The amount due from UBC, the Company's shareholder, is unsecured, non-interest bearing and is expected to be repaid in the next fiscal year.

(b) The amount due from the University Neighborhood Association ("UNA"), an entity related by common control, is unsecured, non-interest bearing and is due on or before June 30, 2015.

8. Loans payable

	Weighted average rate	Weighted average term	2015 Total
	%		$
Fixed rate debt			
Mortgages secured by residential properties	**4.69**	**7 years**	**106,204,272**
Mortgages secured by mixed use properties	**5.02**	**20 years**	**66,349,868**
Mortgages secured by commercial properties	**4.54**	**11 years**	**35,572,037**
	4.77	**12 years**	**208,126,177**
Floating rate debt			
Unsecured promissory notes	**2.24**	**0.6 years**	**45,338,000**
			253,464,177
Financing costs			**(1,938,057)**
			251,526,120

	Weighted average rate	Weighted average term	2014 Total
	%		$
Fixed rate debt			
Mortgages secured by residential properties	4.75	6 years	85,583,881
Mortgages secured by mixed use properties	5.02	21 years	67,640,230
Mortgages secured by commercial properties	4.91	11 years	31,750,377
	4.87	12 years	184,974,488
Floating rate debt			
Unsecured promissory notes	2.50	0.6 years	56,459,000
			241,433,488
Financing costs			(1,503,724)
			239,929,764

	2015	2014
	$	$
Current	**57,067,536**	67,987,126
Non-current	**194,458,584**	171,942,638
	251,526,120	239,929,764

8. Loans payable (continued)

Scheduled principal repayments and maturities on loans payable for each of the next five years and thereafter are as follows:

	Scheduled principal payments	Principal maturities	Total repayments
	$	$	$
2016	5,330,029	52,100,634	57,430,663
2017	5,141,140	441,244	5,582,384
2018	5,294,779	2,832,390	8,127,169
2019	5,538,138	-	5,538,138
2020	4,758,194	19,838,199	24,596,393
Thereafter	41,078,841	111,110,589	152,189,430
	67,141,121	186,323,056	253,464,177

The Company has an operating overdraft facility of $10 million which bears interest at the bank's prime rate plus 0.1% per annum and is repayable on demand. As at March 31, 2015, $Nil (2014 - $Nil) is drawn on this facility.

The Company had the following net finance costs during the year:

	2015	2014
	$	$
Finance income		
Interest income	**396,478**	165,680
Finance cost		
Interest on		
Bank indebtedness	**7,629**	6,798
Promissory notes (Note 10(d))	**668,694**	626,262
Loans payable	**10,204,649**	9,845,734
	10,880,972	10,478,794
Financing costs capitalized	**(668,694)**	(626,262)
	10,212,278	9,852,532
Finance costs, net	**9,815,800**	9,686,852

In addition to the above finance costs, the Company recorded an increase in the fair value of derivatives of $3,088,837 (2014 - decrease of $1,486,000)

9. Due to related party

The amount due to UBC and distributions payable to UBC are unsecured, non-interest bearing and have no fixed terms of repayment.

10. Related party transactions

In addition to transactions described elsewhere in the consolidated financial statements, the Company had the following related party transactions:

(a) The Company earned project management fees of $4,207,726 (2014 - $3,331,190) from UBC for development and project management services provided.

(b) The Company expensed in cost of sales $1,911,663 (2014 - $1,430,444) of base rent paid to UBC pursuant to the land development agreement (Note 4).

(c) The Company expensed in cost of sales $7,301,833 (2014 - $6,305,792) in Infrastructure Impact Charges charged by UBC for prepaid land leases sold during the year.

(d) The Company paid interest of $668,694 (2014 - $626,262) on the promissory notes owing to UBC.

(e) The Company earned management fees of $80,000 (2014 - $80,000) from the UNA for property management services pertaining to landscaping in the Hampton Place, Hawthorn Place, Chancellor Place, and Wesbrook neighbourhoods.

The remuneration of the Board of Directors and other key management personnel having the authority and responsibility for planning, directing, and controlling the activities of the Company during the years ended March 31, 2015 and 2014 is as follows:

			2015
	Salaries	**Benefits**	**Total**
	$	**$**	**$**
Company management	**809,577**	**125,521**	**935,098**
Board of Directors	**278,000**	**-**	**278,000**
	1,087,577	**125,521**	**1,213,098**

			2014
	Salaries	Benefits	Total
	$	$	$
Company management	835,831	116,685	952,516
Board of Directors	280,000	-	280,000
	1,115,831	116,685	1,232,516

11. Commitments

(a) On August 1, 2014, the Company entered into a three year lease for office premises with rent commitments of $106,689 in 2015, $142,252 in 2016, and $82,980 in 2017.

(b) In its capacity as development manager, the Company has provided letters of guarantee totaling $5,756,250 (2014 - $5,756,250) as security for the lease-up of remaining vacant retail space in a mixed use property.

(c) The Company has committed to construction contracts totaling $148,688,192 (2014 - $132,197,580).

12. Contingent assets

Sales of certain prepaid land lease transactions contain a participation feature whereby the Company is eligible to earn additional revenue from the developer of those lands, the amount of which is dependent on the financial success of the development. Although the Company considers the future inflows of these contingent revenues to be probable, no amounts are recorded or disclosed in these consolidated financial statements until the contingency is resolved and the amounts can be measured reliably.

For the year ended March 31, 2015, the Company recorded participation revenue of $8,079,104 (2014 - $40,638,301) related to land lease sales transactions that contain this contingent participation feature.

13. Financial instruments

The carrying value of cash and cash equivalents, investments, funds held in trust, deposits held in trust, due from related parties, accounts payable, due to related parties, holdbacks payable and distributions payable approximate their fair values due to the short term nature. The fair value of the derivatives was measured under Level 2 of the fair value hierarchy.

The three levels of the fair value hierarchy are described as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

		2015		2014
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Mortgages	**208,126,177**	**226,723,904**	184,974,488	192,739,062
Promissory notes	**45,338,000**	**45,338,000**	56,459,000	56,459,000
	253,464,177	**272,061,904**	241,433,488	249,198,062

The fair value of mortgages, promissory notes and credit facilities was estimated at the present value of contractual future payments of principal and interest, discounted at the current market rates of interest available to the Company for the same or similar debt instruments.

The fair value of the derivatives, being interest rate swaps, are based on the mark-to-market price from the financial institution at March 31, 2015. The carrying value of the related loans at March 31, 2015 is $43,331,000 (2014 - $44,973,000).

14. Management of risks arising from holding financial instruments

The Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) *Interest rate risk and liquidity risk*

The time period over which the Company is spreading the fixed term debt maturities implies an average term to maturity of approximately 12 years. This strategy reduces the Company's exposure to re-pricing risk resulting from short term interest rate fluctuations in any one year. Management is of the view that this method will provide the most effective interest rate risk management for debt.

14. Management of risks arising from holding financial instruments (continued)

(a) Interest rate risk and liquidity risk (continued)

There is interest rate risk associated with the revolving bank credit facility, promissory notes and construction loans as the interest is impacted by changes in the bank rate. Management limits the use of short term borrowings and converts floating rate debt to fixed rate debt where practicable. A 100 basis point increase in market interest rates increases the annual floating rate debt service by $453,380 (2014 - $564,590). In addition, there is interest rate risk associated with the Company's fixed rate debt due to the expected requirement to refinance such debt in the year of maturity.

Liquidity risk arises from the possibility of not having sufficient debt capacity available to the Company to fund its growth program and refinance or meet its payment obligations as they arise. The Company's principal liquidity needs arise from working capital requirements, debt servicing, planned funding of maintenance, leasing costs and distributions. These liquidity needs are funded by cash flows from land transactions, the rental portfolio and credit and overdraft facilities.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Company. Management's strategy mitigates the Company's exposure to excessive amounts of debt maturing in any one year.

From time to time, the Company enters into interest rate swap contracts to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount. The Company conducts swap transactions with entities that are financially sound (all interest rate swaps are with the Royal Bank of Canada).

(b) Credit risk

Credit risk is the risk of loss due to the failure of a debtor or counterparty to fulfill its contractual obligations. The Company has a significant concentration of receivables with its parent, UBC, pertaining to ongoing construction management projects. UBC has an Aa1 credit rating with Moody's and an AA+ rating from Standard and Poor's and the Company does not expect UBC to not meet their ongoing obligations.

The Company is exposed to credit risk in the event of non-payment of rent and recoveries by its tenants. This risk is mitigated by obtaining advance deposits, limiting the amount of credit extended and initiating a prompt collection process when in default.

(c) Capital management policy

The Company's objectives in managing capital is to ensure there is sufficient capital to fund its business strategies and create long term shareholder value. This objective is achieved by prudently managing capital through internal growth and optimizing lower cost of capital to fund initiatives. The Company considers debt to be the primary source of capital. Changes in the economic environment may lead the Company to either arrange new debt or refinance existing debt to take advantage of growth opportunities.

The Company's liquidity needs are for development costs, non-recurring capital expenditures and scheduled debt servicing and maturities.

14. Management of risks arising from holding financial instruments (continued)

(c) Capital management policy (continued)

The following schedule details the components of the Company's capital.

	2015	2014
	$	$
Cash and cash equivalents	**17,291,559**	49,746,297
Investments	**1,315,120**	846,692
Mortgages payable	**208,126,177**	184,974,488
Promissory notes payable	**45,338,000**	56,459,000
Line of credit facility ($10,000,000 available)	**-**	-
	272,070,856	292,026,477

Management and the Board maintain a balance between the higher expected return on capital that might be possible with a higher level of financial debt and the advantages and security afforded by a lower level of financial leverage.