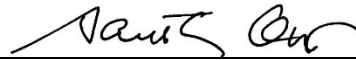


<b>SUBJECT</b>	<b>GREAT NORTHERN WAY CAMPUS TRUST   FINANCIAL STATEMENTS DECEMBER 31, 2016</b>
<b>MEETING DATE</b>	<b>DECEMBER 5, 2017</b>

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR  
SUBMISSION**



\_\_\_\_\_  
Santa J. Ono, President and Vice-Chancellor

**FOR INFORMATION**

<b>Report Date</b>	November 1, 2017
<b>Presented By</b>	Andrew Simpson, Vice-President Finance & Operations Stuart Mackenzie, Director, Financial Reporting & Budgeting

**EXECUTIVE SUMMARY**

The Board of Directors of Great Northern Way Campus Trust (“GNW Trust”) has approved the audited financial statements for the year ended December 31, 2016. The financial statements were prepared by the management of Great Northern Way Campus Trust and audited by Grant Thornton LLP.

The trustee of the GNW Trust is Great Northern Way Campus Ltd. BCIT, Emily Carr University of Art and Design (ECUAD), SFU, and UBC each own 25% of the voting shares of the Trustee. It was established in 2001, following a gift from Finning of an 18-acre site on the False Creek Flats. Dedicated to building a thriving, innovative community, with a digital media vision, including academic, economic and real estate development, the Trustee is financially supported by three income producing rental buildings and portfolio investment growth. In 2006, the Provincial Government granted \$40.5 million to GNW Trust to create the Centre for Digital Media. These funds were used to construct a building for the Master of Digital Media (“MDM”) Program and residences, as well as enhance other buildings to create rentable office spaces. The remainder was intended to fund the operations of the MDM Program and was invested in a portfolio investment with the plan to use a portion of the annual market growth to fund the MDM Program. GNW Trust also generates revenue with Real Estate Development.

The Trustee has two principal activities, managed in the name of two brands, the Centre for Digital Media (CDM) and Great Northern Way Trust (GNW Trust):

**Operating Activities**

1. Masters of Digital Media Program – The Trustee oversees the business of operating the graduate degree program, in cooperation with and under agreement with SFU, providing a multi-disciplinary professional master’s degree in digital media. Future goals include continuously improving the quality and diversity of the MDM Program and creating new programs that serve the needs of the digital media community. New programs will complement existing programs at the four partner institutions.

2. MDM/CDM 2006 Government Grant – The Trustee manages the MDM/CDM 2006 Government Grant, which is invested in two income-producing buildings, a portfolio of marketable securities and cash. The MDM/CDM investments generate revenue to support MDM/CDM initiatives. In addition to generating revenue, the two buildings accommodate academic classrooms, student housing and vision-aligned tenant studios in a themed digital media precinct for students, faculty and industry experts.
3. Property Management – The Trustee outsources property management activities to Dorset Realty. This includes management of buildings, as well as maintenance of surface parking areas.

### **Real Estate Development**

The Trustee is in the process of developing the GNW Trust lands. Current projects include:

1. Subdivision - The subdivision of the GNW Trust lands into ten individual lots (as well as roads and open space) is separated into four phases to accommodate various project timelines. As part of the subdivision process, legal agreements with the City of Vancouver will be registered on each parcel; these include a services agreement with details of the servicing requirements that must be satisfied before the Trustee is able to develop each lot.
2. Land Servicing – As part of the subdivision process required by the City of Vancouver, the Trustee continues to fulfill its servicing obligations for the ECUAD relocation project and remaining development parcels.
3. ECUAD Relocation – As a result of the decision to relocate ECUAD to the GNW Trust lands, the Trustee provided a serviced development site for Emily Carr to build and occupy its new campus. The Trustee transferred a fee simple interest to ECUAD and issued promissory notes of equal value (including an inflation mechanism) to non-ECUAD Shareholders based on the appraised value of \$14.4 million. ECUAD will forgo any future distributions from the Trustee until an equal value (including an inflation mechanism) has been distributed to the non-ECUAD Shareholders. The distribution will be from proceeds generated by monetizing the remaining development parcels.
4. Lots 8 and 9 – Pursuant to a Request for Proposal (RFP) process, the Trustee is selling these sites to PCI and Low Tide for \$28.1 million in order to realize the Trustee’s vision and fulfill its financial obligations to the non-ECUAD Shareholders. PCI will develop office/retail mixed-use buildings on these sites in accordance with the Trustee’s vision. The sale will close in two phases: Phase 1 closed in September 2016 for \$11 million, and Phase 2 is scheduled to close in November 2017 for \$17 million, allowing the first distribution to the non-ECUAD Shareholders to materialize in December 2017.
5. Lots 6 and 7 – The Trustee is in the process of selling Lots 6 and 7 to PCI and Low Tide. The sale of Lot 6 (final open space) and Lot 7 will complete in Q1 2018 for gross \$24 million (net \$19 million after deducting the daycare price adjustment for PCI’s assumption of GNW’s daycare obligation). The Trustee may also receive additional proceeds in the future in the event that PCI rezones for more valuable density.

The Trustee’s operations are financially sustainable. In 2016, the Trustee recognized a net income of \$13.9 million mostly related to the sale of land.

**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 Great Northern Way Campus Trust are included in the audited consolidated financial statements of UBC, using the modified 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.



Financial Statements

Great Northern Way Campus Trust

December 31, 2016

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# Independent Auditor's Report

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To the Trustee of  
Great Northern Way Campus Trust

We have audited the accompanying financial statements of Great Northern Way Campus Trust, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and comprehensive income, trust 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 financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Great Northern Way Campus Trust as at December 31, 2016 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Vancouver, Canada  
March 31, 2017

*Grant Thornton LLP*

Chartered Professional Accountants

# Great Northern Way Campus Trust

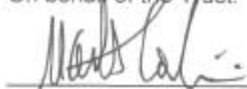
## Statement of Financial Position

December 31		2016	2015
	<u>Note</u>		
<b>Assets</b>			
<b>Non-current</b>			
Investment property	4	\$ 26,106,776	\$ 25,281,749
Property, plant and equipment	5	13,388,216	14,220,247
Investments	6	<u>22,020,455</u>	<u>26,020,961</u>
		<u>61,515,447</u>	<u>65,522,957</u>
<b>Current</b>			
Inventory property	7	6,352,890	13,326,620
Due from related parties	8	-	4,933
Prepaid expenses		67,147	90,495
Accounts receivable		671,063	398,228
Cash		<u>23,518,060</u>	<u>1,418,007</u>
		<u>30,609,160</u>	<u>15,238,283</u>
<b>Total assets</b>		<u>\$ 92,124,607</u>	<u>\$ 80,761,240</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Contributed surplus		\$ 67,300,200	\$ 65,563,556
Accumulated other comprehensive loss		(834,327)	(2,160,803)
Accumulated surplus (deficit)		<u>10,049,465</u>	<u>(2,111,756)</u>
<b>Total equity</b>		<u>76,515,338</u>	<u>61,290,997</u>
<b>Non-current liabilities</b>			
Deferred government assistance	10	11,461,197	13,071,013
Deferred industry contributions		-	261,836
		<u>11,461,197</u>	<u>13,332,849</u>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		2,161,690	4,181,926
Deposits		63,288	65,976
Deferred revenue		171,230	152,848
Trust distributions payable	11	<u>1,751,864</u>	<u>1,736,644</u>
		<u>4,148,072</u>	<u>6,137,394</u>
<b>Total liabilities</b>		<u>15,609,269</u>	<u>19,470,243</u>
<b>Total equity and liabilities</b>		<u>\$ 92,124,607</u>	<u>\$ 80,761,240</u>

Commitments (Note 12)

Post reporting date events (Note 15)

On behalf of the Trust:



Director



Director

See accompanying notes to the financial statements.



# Great Northern Way Campus Trust

## Statement of Operations and Comprehensive Income

Year ended December 31

2016

2015

	Note		
Revenue			
MDM Program		\$ 2,422,058	\$ 2,583,810
CDM 2006 Government Grant		2,608,874	2,523,631
Non-CDM Property Management		332,094	288,874
Recognition of deferred government assistance	10	1,609,816	2,335,329
Recognition of deferred industry contributions		261,836	-
Gain on sale of portfolio investments		569,578	860,327
Sale of inventory property		<u>20,729,120</u>	<u>-</u>
Total revenue		<u>28,533,376</u>	<u>8,591,971</u>
Operating expenses			
MDM Program		3,205,869	3,185,413
CDM 2006 Government Grant		1,806,437	1,642,145
Non-CDM Property Management		318,540	260,236
Depreciation		1,659,829	1,682,609
Real Estate Development		358,893	488,677
Cost of sale of inventory property	7	<u>7,270,723</u>	<u>-</u>
Total operating expenses		<u>14,620,291</u>	<u>7,259,080</u>
Net income		<u>13,913,085</u>	<u>1,332,891</u>
Other comprehensive income (loss)			
Unrealized gain (loss) on investments		583,046	(1,328,549)
Derecognition of unrealized loss (gain) on sale of investments		<u>743,430</u>	<u>(26,577)</u>
Other comprehensive income (loss)		<u>1,326,476</u>	<u>(1,355,126)</u>
Comprehensive income (loss)		<u>\$ 15,239,561</u>	<u>\$ (22,235)</u>

See accompanying notes to the financial statements.

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## Great Northern Way Campus Trust

### Statement of Trust Equity

Year ended December 31, 2016

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	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated (deficit) surplus	<b>2016 Total</b>	2015 Total
Balance, beginning of year	\$ 65,563,556	\$ (2,160,803)	\$ (2,111,756)	<b>\$ 61,290,997</b>	\$ 58,344,504
Net income	-	-	13,913,085	<b>13,913,085</b>	1,332,891
Contributions (distributions)	1,736,644	-	(1,751,864)	<b>(15,220)</b>	2,968,728
Other comprehensive income (loss)	-	1,326,476	-	<b>1,326,476</b>	(1,355,126)
Balance, end of year	<b>\$ 67,300,200</b>	<b>\$ (834,327)</b>	<b>\$ 10,049,465</b>	<b>\$ 76,515,338</b>	<b>\$ 61,290,997</b>

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# Great Northern Way Campus Trust

## Statement of Cash Flows

Year ended December 31

2016

2015

Cash derived from (applied to)

### Operating activities

Net income	\$ 13,913,085	\$ 1,332,891
Gain on sale of portfolio investments	(569,578)	(860,327)
Items not involving cash		
Recognition of deferred government assistance	(1,609,816)	(2,335,329)
Recognition of deferred industry contributions	(261,836)	-
Depreciation	1,659,829	1,682,609
	<u>13,131,684</u>	<u>(180,156)</u>
Changes in non-cash working capital items		
Inventory property	7,270,723	-
Prepaid expenses	23,348	(64,075)
Accounts receivable	(272,835)	(215,136)
Accounts payable and accrued liabilities	237,979	(80,239)
Deposits	(2,688)	(31,534)
Deferred revenue	18,382	10,452

### Net cash flow from operating activities

20,406,593      (560,688)

### Investing activities

Proceeds on sale of investment	14,720,156	13,571,368
Purchase of investments	(8,119,380)	(12,591,709)
Reinvested income on investments	(704,216)	(762,146)
Investment property	(4,101,025)	(3,735,901)
Property, plant and equipment	(71,200)	(107,579)
Financing fees paid	(35,808)	(84,229)

### Net cash flow from investing activities

1,688,527      (3,710,196)

### Financing activities

Repayments from related parties	4,933	24,990
Distributions	(1,736,644)	(4,705,372)
Contributions	1,736,644	4,705,372

### Net cash flow from financing activities

4,933      24,990

Increase (decrease) in cash

22,100,053      (4,245,894)

Cash, beginning of year

1,418,007      5,663,901

Cash, end of year

\$ 23,518,060      \$ 1,418,007

### Non-cash financing activities

Trust distributions payable	\$ 1,751,864	\$ 1,736,644
Investment property additions included in accounts payable and accrued liabilities	875,738	3,133,953

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 1. General information and nature of operations

#### Structure

Great Northern Way Campus Trust (the "Trust") is a trust established under the laws of the Province of British Columbia. The trustee of the Trust is Great Northern Way Campus Ltd. (the "Trustee"), a company incorporated under the laws of the Province of British Columbia. The registered office of the Trustee is located in Vancouver, Canada. British Columbia Institute of Technology ("BCIT"), Emily Carr University of Art + Design ("ECUAD"), Simon Fraser University ("SFU"), and University of British Columbia ("UBC") (collectively, the "partner institutions") each own 25% of the voting shares of the Trustee. A shareholders' agreement governs the relationship of the partner institutions as well as the relationship between the partner institutions and the Trustee's board of directors ("GNW Trust Board"). The partner institutions are the Trust's beneficiaries. Distributions of income and capital to the beneficiaries are made at the discretion of the Trustee.

#### Business activities

The Great Northern Way Campus ("GNWC") vision is to transform the old Finning property from an underutilized industrial site into a vibrant urban campus community of creators, entrepreneurs and educators. This transformed property will include a world-class Centre for Digital Media, the Emily Carr campus, developments from PCI and Onni, public spaces, university-oriented live-work residences, art galleries, artist studios and work spaces for industry professionals.

The Trustee has a corporate management team that oversees the four business areas outlined below. Corporate Management includes corporate administration, office administration and salaries. This cost centre is allocated evenly among the four business areas. Once real estate development ceases, it will be allocated among the remaining three business areas:

- i. CDM Programs – Under the CDM brand, the Trustee runs the Master of Digital Media (MDM) Program, which offers a multi-disciplinary professional graduate degree in digital media. SFU provides management for the CDM Programs. The Academic Committee provides oversight, strategic vision and planning for the MDM Program. The 16-month MDM Program involves coursework and an internship with a company in the digital media industry. The MDM Program's management team also organizes other digital media-related programs and events (e.g., Pre-MDM Program, Tomorrow's MDM Program, IDEA-X and Industry Showcase).
- ii. CDM Asset Management – In 2006, the Province gave \$40.5 million (\$3.5 million for start-up costs, \$17 million for operational costs and \$20 million for capital costs) to create and support a Master Program in Digital Media and create a Centre for Digital Media. The Trustee manages the Government Grant's remaining capital from the Government Grant (two income-producing buildings: CDM 577 (Lot 3) and CDM 685 (Lot 10) and operational portions (portfolio of marketable securities and cash). Property management of the capital portion is outsourced to Dorset Realty, while management of the endowment portion is outsourced to Leith Wheeler Investment Counsel. In addition to generating revenue (all CDM investments generate revenue to support CDM initiatives), the two buildings accommodate vision-aligned tenants to create connections and promote collaboration with students of the CDM Programs.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 1. General information and nature of operations (continued)

#### Business activities (continued)

- iii. GNW Asset Management – The Trustee outsources its non-CDM property management activities under the GNW Trust brand to Dorset Realty. This includes management of Lot 4 and maintenance of the lands, including surface parking areas and the future temporary Open Space.
- iv. Real Estate Development - Under the GNW Trust name, the Trustee is involved in real estate development, which includes land sales and capitalized projects.

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### 2. Basis of preparation and statement of compliance with IFRS

The financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements for the year ended December 31, 2016 were approved and authorized for issue by the GNW Trust Board on March 31, 2017.

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### 3. Significant accounting policies

#### Overall considerations

The financial statements have been prepared using accounting policies specified by those IFRS that are in effect at the end of the reporting period (December 31, 2016), or which have been adopted early.

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

#### Revenue recognition

##### *Land sales*

Sales of land 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 passage of the risks and rewards of ownership.

##### *Rental operations*

The Trust has retained substantially all of the risks and benefits of ownership of its revenue-producing properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue is recorded on a straight-line basis over the term of the lease, except for contingent rental income which is recognized when tenants are obligated to pay such rent under the terms of the related lease agreements.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

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December 31, 2016

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### 3. Significant accounting policies (continued)

#### Revenue recognition (continued)

##### *Academic fees*

Academic fees are recorded when services are rendered. Academic fees received in advance are deferred and are recognized over the duration of the program.

##### *Interest and dividend income*

Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income is recognized at the time the right to receive payment is established.

#### Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

#### Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are carried at cost less accumulated depreciation and are reviewed periodically for impairment as described below.

Depreciation is recognized on a straight-line basis over 10 to 20 years or over term of lease to write-down the cost less estimated residual value.

Repair and maintenance improvements are expensed as incurred or, in the case of major items that constitute a capital asset, are capitalized to the building and depreciated on a straight-line basis over the expected useful life of the improvement.

Gains or losses arising on the disposal of investment property are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses.

Rental income and operating expenses from investment property are reported within revenue and operating expenses, respectively.

#### Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services or for administrative purposes.

Land, building, and equipment are carried at acquisition cost less subsequent depreciation and impairment losses. Cost includes all amounts relating to the acquisition and improvement of the property, plant and equipment.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 3. Significant accounting policies (continued)

#### Property, plant and equipment (continued)

Depreciation is recognized on a straight-line basis to write-down the cost less estimated residual value of property, plant and equipment other than land. The periods generally applicable are:

Buildings and improvements	10 to 20 years
Furniture and fixtures	10 years
Office equipment	10 years
Computer equipment	3 years
Computer software	completely depreciated in the year of purchase

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses.

#### Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory.

Inventory property is recorded at the lower of cost and net realizable value. Cost includes all expenditures incurred in connection with the acquisition, development and construction of the property.

Net realizable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

#### Impairment of long-lived assets

For purposes of assessing impairment, assets are grouped at the lowest levels for which they generate largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Administrative assets are allocated to the cash-generating units based on the carrying value of the cash-generating units.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. To determine the value in use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Trust's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

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December 31, 2016

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### 3. Significant accounting policies (continued)

#### Impairment of long-lived assets (continued)

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in bank accounts, and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Short-term investments

The Trust considers all term deposits with terms to maturity of one year or less at the date of purchase to be short-term investments.

#### Decommissioning liabilities

A liability for decommissioning is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. This liability is initially recorded at its estimated fair value, based on a discounted value of the expected costs to be paid when the assets are retired. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and depreciated over the life of the asset. The liability increases each period as the amount of the discount decreases over time. The resulting expense is referred to as accretion expense and is included in operating expenses. As at December 31, 2016, the Trust determined there were no significant decommissioning liabilities associated with its assets.

#### Government assistance and industry contributions

Government assistance and industry contributions relating to operating expenditures are recorded in income.

Government assistance and industry contributions relating to depreciable capital expenditures are deferred and amortized to income on the same basis as the related capital assets are amortized.

Government assistance and industry contributions relating to endowment funding are recorded as contributed surplus.

#### Financial instruments

Financial assets and financial liabilities, including derivatives, are measured initially at fair value adjusted for transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss which are measured initially at fair value.



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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 3. Significant accounting policies (continued)

#### Financial instruments (continued)

Financial assets and financial liabilities are measured subsequently as described below.

##### *Financial assets*

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments

Loans and receivables are subsequently measured at amortized cost using the effective interest method. The Trust's cash, accounts receivable and due from related parties have been classified as loans and receivables.

Financial assets at fair value through profit or loss are subsequently measured at fair value with changes in those fair values recognized in net earnings. The Trust has no financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Trust's investments and short-term investments have been classified as available-for-sale financial assets.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. The Trust has no financial assets classified as held-to-maturity investments.

##### *Financial liabilities*

For the purpose of subsequent measurement, financial liabilities are classified as other financial liabilities.

Other financial liabilities are measured at amortized cost using the effective interest method. The Trust's accounts payable and accrued liabilities, deposits, and trust distributions payable have been classified as other financial liabilities.

#### Contributed surplus

Contributed surplus includes capital contributions from the partner institutions and government assistance and industry contributions relating to endowment funding.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 3. Significant accounting policies (continued)

#### Use of estimates

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

Significant areas requiring the use of estimates include the valuation of investment property, property, plant and equipment, inventory property, and the determination of useful lives for depreciation. Actual results could differ from those estimates.

#### Future changes in accounting standards

The Trust has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Trust has not early adopted any of these standards. The standards, amendments and interpretations that will be relevant to the Trust are:

##### *IFRS 16 Leases*

The IASB released IFRS 16 *Leases*, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

In addition, IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements; and
- introduces new disclosure requirements.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Trust's management have not yet assessed the impact of IFRS 16 on these financial statements.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 3. Significant accounting policies (continued)

#### Future changes in accounting standards (continued)

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Trust's management have not yet assessed the impact of IFRS 15 on these financial statements.

##### *IFRS 9 Financial Instruments (2014)*

The IASB recently released IFRS 9 *Financial Instruments (2014)*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Trust's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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#### 4. Investment property

Investment property consists of development land, buildings and tenant improvements included in Lots 3 and 4. The Trust's investment property is owned for capital appreciation and to earn rental income.

Changes to the carrying amounts presented in the statement of financial position are summarized as follows:

##### Cost

Balance, December 31, 2015	\$ 27,040,880
Additions	1,878,618
Transfer to inventory property	(296,993)
<b>Balance, December 31, 2016</b>	<b><u>\$ 28,622,505</u></b>

##### Accumulated depreciation

Balance, December 31, 2015	\$ 1,759,131
Depreciation	756,598
<b>Balance, December 31, 2016</b>	<b><u>\$ 2,515,729</u></b>

##### Net book value

December 31, 2015	\$ 25,281,749
<b>December 31, 2016</b>	<b>26,106,776</b>

As at December 31, 2016, the fair values of investment properties, estimated using observable data on recent transactions, property tax assessments and recent yields for similar properties, approximated \$57,600,000.

Investment property additions during the year ended December 31, 2016 includes capitalized borrowing costs of \$35,808 (2015 - \$84,229) which were incurred on the letters of guarantee disclosed in Note 12.

The properties are leased out on operating leases. The lease contracts are all non-cancellable from the commencement of the lease.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

### 5. Property, plant and equipment

Property, plant and equipment consist of certain buildings included in Lot 10 which are used in the supply of services and for administrative purposes.

	Land	Buildings and improvements	Furniture and fixtures	Office equipment	Computer equipment	Computer software	Total
<b>Cost</b>							
Balance, December 31, 2015	\$ 1,472,221	\$ 14,712,168	\$ 1,150,033	\$ 435,754	\$ 1,681,103	\$ 173,733	\$ 19,625,012
Additions	-	2,970	21,826	-	46,404	-	71,200
<b>Balance, December 31, 2016</b>	<b>\$ 1,472,221</b>	<b>\$ 14,715,138</b>	<b>\$ 1,171,859</b>	<b>\$ 435,754</b>	<b>\$ 1,727,507</b>	<b>\$ 173,733</b>	<b>\$ 19,696,212</b>
<b>Accumulated depreciation</b>							
Balance, December 31, 2015	\$ -	\$ 2,650,961	\$ 491,581	\$ 411,557	\$ 1,676,933	\$ 173,733	\$ 5,404,765
Depreciation	-	758,540	117,558	2,418	24,715	-	903,231
<b>Balance, December 31, 2016</b>	<b>\$ -</b>	<b>\$ 3,409,501</b>	<b>\$ 609,139</b>	<b>\$ 413,975</b>	<b>\$ 1,701,648</b>	<b>\$ 173,733</b>	<b>\$ 6,307,996</b>
<b>Net book value</b>							
December 31, 2015	\$ 1,472,221	\$ 12,061,207	\$ 658,452	\$ 24,197	\$ 4,170	\$ -	\$ 14,220,247
<b>December 31, 2016</b>	<b>1,472,221</b>	<b>11,305,637</b>	<b>562,720</b>	<b>21,779</b>	<b>25,859</b>	<b>-</b>	<b>13,388,216</b>

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## Great Northern Way Campus Trust

### Notes to the Financial Statements

December 31, 2016

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6. Investments	2016		2015	
	Historical Cost	Market Value	Historical Cost	Market Value
Bond portfolio	\$ -	\$ -	\$ 10,098,589	\$ 10,009,689
Leith Wheeler Bonds	8,405,772	8,065,781	-	-
Leith Wheeler Funds	14,449,009	13,954,674	18,083,175	16,011,272
	<u>\$ 22,854,782</u>	<u>\$ 22,020,455</u>	<u>\$ 28,181,764</u>	<u>\$ 26,020,961</u>

Investments are within pooled investment funds which are valued at the unit value supplied by the pooled fund administrator which represent the Trust's proportionate share of underlying net assets at fair value determined using closing market values.

Due to the inherent nature of pooled funds, it is not possible to determine the weighted average yield or maturity date.

The Trust did not record any impairment charges or reversals during the year.

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7. Inventory property	2016	2015
Balance, beginning of year	\$ 13,326,620	\$ 2,462,268
Transfer from investment property	296,993	10,864,352
Sale of inventory property	(7,270,723)	-
Balance, end of year	<u>\$ 6,352,890</u>	<u>\$ 13,326,620</u>

The fair value of property included in inventory property is \$17,125,000.

In August 2015, the Trust entered into a purchase and sale agreement to sell the remainder of Lot 8 for \$17.125M. The sale is expected to close in 2017.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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<b>8. Related party transactions and balances</b>	<u>2016</u>	<u>2015</u>
<b>Due from related parties</b>		
ECUAD	\$ -	\$ 4,933

In addition to related party balances described elsewhere in these financial statements, the Trust had the following balances with related parties:

	<u>2016</u>	<u>2015</u>
Included in accounts receivable		
SFU	\$ 77,028	\$ 62,179
Included in accounts payable		
SFU	\$ 363,004	\$ 164,769
ECUAD	4,480	-
Interest income		
ECUAD	\$ 33	\$ 99
Management fee expense		
SFU	125,414	136,066

Compensation of key management personnel are as follows:

Salaries	\$ 714,537	\$ 682,317
Bonuses	92,266	102,750
Employee benefits	118,200	108,407
	<u>\$ 925,003</u>	<u>\$ 893,474</u>

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### 9. Bank indebtedness

The Trust has available a \$5,000,000 facility from HSBC which can be issued for bank guarantees or an operating line at prime plus 1% per annum secured by a promissory note, a general security agreement, a first charge over the real property located at 577 Great Northern Way in Vancouver, and an assignment of all risk insurance. Interest is due monthly and the principal is due on demand. There is also a 0.25% standby fee on the unadvanced portion of the facility. At December 31, 2016, the balance of the bank indebtedness was \$Nil (2015 - \$Nil).

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

### 10. Deferred government assistance

	CDM685 funding	Unspent ECUAD site preparation costs	<b>2016 Total</b>	2015 Total
Balance, beginning of year	\$ 12,577,116	\$ 493,897	\$ 13,071,013	\$ 15,406,342
Less:				
Government assistance used for buildings and improvements	-	(493,897)	(493,897)	(1,219,408)
Amortized to revenue	(1,115,919)	-	(1,115,919)	(1,115,921)
Balance, end of year	<b>\$ 11,461,197</b>	<b>\$ -</b>	<b>\$ 11,461,197</b>	<b>\$ 13,071,013</b>

On April 3, 2006, the Trust received one-time funding of \$40.5 million from the Province of British Columbia, Ministry of Economic Development, in response to a funding request for the development and operation of a Masters of Digital Media program and the Centre for Digital Media building. Of the \$40.5 million, \$1.5 million was allocated to New Media BC in 2007; therefore, it is not recorded by the Trust. The remaining \$39 million grant was intended for use as follows:

Building principal	\$ 2,000,000
Restricted capital	20,000,000
Endowment	17,000,000
	<u>\$ 39,000,000</u>

On May 16, 2014, the Trust received a letter from the Province of British Columbia informing that approximately \$7 million of the remaining provincial grant funding originally intended to build the CDM 685 building was to be reallocated to fund GNW site preparation costs specific to the ECUAD relocation capital project. When the Trust received this letter, the actual unspent government assistance totalled \$5,947,783. As of December 31, 2016, this entire amount has been recorded relating to these site preparation costs.

### 11. Trust distributions payable

	<b>2016</b>	2015
BCIT	\$ 437,966	\$ 434,161
ECUAD	437,966	434,161
SFU	437,966	434,161
UBC	437,966	434,161
	<b>\$ 1,751,864</b>	<b>\$ 1,736,644</b>

The trust distributions payable to the partner institutions are non-interest bearing, unsecured, and have no fixed terms of repayment.



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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 12. Commitments

- (a) The Trust has provided letters of guarantee totalling \$2,284,676 (2015 - \$3,982,261) for various on-site and off-site servicing and street works projects.
- (b) The site is currently zoned pursuant to CD-1 (402) *Comprehensive Development Zone*. A condition of the CD-1 zoning is related to servicing and engineering obligations both on and off the site. When the site was partially gifted, these obligations were assumed by the Trust when it and the partner institutions entered into an Assignment and Assumptions Agreement with the City of Vancouver in 2002. This agreement pertains to the entire land area under the CD-1 (402) zoning, including land not owned by the Trust. This agreement obligates the Trust to reimburse the City of Vancouver for certain costs in addition to carrying out certain on-site and off-site servicing works. The timing of payments is largely contingent on activities that may be performed by the Trust in the coming years as part of its site development plan.

Under the subdivision process, currently underway, this agreement is being replaced by updated servicing requirements that reflect the current Structure Plan. The new servicing requirements will be registered on title as servicing agreements on each of the 9 newly created lots. The Trust is currently negotiating these servicing obligations through the subdivision process. Payment for these works will be triggered by a development permit issuance on each of the lots.

- (c) Effective September 1, 2010, the Trustee entered into a Management Services Agreement with SFU whereby SFU will provide certain budget and financial services, student services, and academic and administrative services relating to the MDM program. The Agreement was amended on December 2, 2014 to include an allocation of space in buildings 685 and 577 for the MDM program, and the appointment of a principal contact by SFU to oversee the terms of the Agreement. The Trustee agrees to pay SFU six percent (6%) of the gross tuition and mandatory fees in return for these services. The agreement was renewed in December 2015 for another three-year term expiring in December 2018.
- (d) The Trustee executed a Right of Use Agreement (the "ROU") with ECUAD dated March 14, 2014, to provide ECUAD with an exclusive license to use Lot 1 and an offsite parking area as of January 31, 2015. In furtherance of the ECUAD relocation project, the Trustee also executed ROU Addenda #1 and #2 dated October 9, 2014, and October 5, 2015, respectively. Addendum #1 obligates the Trustee to provide ECUAD with a serviced site including demolition, environmental remediation and road construction. These servicing obligations have been quantified and recorded as accrued liabilities in the financial statements.

On February 15, 2017, the Trustee and ECUAD entered into a conditional Purchase and Sale Agreement for Lot 1. (See Note 15.)

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

### 13. Financial instruments

#### (a) Classification

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Available-for-sale				
Investments	\$ 22,020,455	\$ 22,020,455	\$ 26,020,961	\$ 26,020,961
Loans and receivables				
Cash	23,518,060	23,518,060	1,418,007	1,418,007
Accounts receivable	671,063	671,063	398,228	398,228
Due from related parties	-	-	4,933	4,933
	<u>24,189,123</u>	<u>24,189,123</u>	<u>1,821,168</u>	<u>1,821,168</u>
	<u>\$ 46,209,578</u>	<u>\$ 46,209,578</u>	<u>\$ 27,842,129</u>	<u>\$ 27,842,129</u>
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	\$ 2,161,690	\$ 2,161,690	\$ 4,181,926	\$ 4,181,926
Deposits	63,288	63,288	65,976	65,976
Trust distributions payable	1,751,864	1,751,864	1,736,644	1,736,644
	<u>\$ 3,976,842</u>	<u>\$ 3,976,842</u>	<u>\$ 5,984,546</u>	<u>\$ 5,984,546</u>

#### (b) Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 13. Financial instruments (continued)

#### (b) Financial instruments measured at fair value (continued)

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2016</b>					
Investments	\$	-	\$ 22,020,455	\$ -	\$ 22,020,455
December 31, 2015					
Investments	\$	-	\$ 26,020,961	\$ -	\$ 26,020,961

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Investments are within pooled investment funds which are valued at the unit value supplied by the pooled fund administrator which represent the Trust's proportionate share of underlying net assets at fair value determined using closing market values.

#### (c) Risk management

In the normal course of business, the Trust is exposed to a number of risks which could affect its financial performance. The principal risks to which the Trust is exposed, and the actions taken to manage them, are described below.

##### *Interest rate risk*

The Trust is exposed to interest rate risk on bank indebtedness that bears interest at a floating rate. As at December 31, 2016, the balance of the bank indebtedness was \$Nil.

##### *Equity price risk*

Equity price risk is the potential for financial loss to the Trust from changes in the values of its financial instruments due to changes in interest rates and equity prices. The investments of the Trust are subject to normal market fluctuations and to the risk inherent in investment in capital markets.

The Trust actively manages market risk through its investment policy that outlines the objectives, constraints, and parameters related to its investment activities. Management regularly reviews the Trust's investments to ensure all activities adhere to the investment policy.

##### *Liquidity risk*

Liquidity risk is the risk that the Trust is not able to meet its financial obligations as they become due, or can only do so at excessive cost. The Trust establishes budgets and cash flow projections to ensure it has the necessary funds, including access to a demand revolving operating loan (Note 9) to fulfill its obligations when due. As at December 31, 2016, the Trust has cash of \$23,518,060 to settle current accounts payable and accrued liabilities of \$2,161,690. All of the Trust's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 13. Financial instruments (continued)

#### (c) Risk management (continued)

##### *Credit risk*

Credit risk is the risk of financial loss to the Trust if a student or counterparty to a financial instrument fails to meet its contractual obligations.

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each student or counterparty. The Trust is exposed to credit risk in the event of non-payment of billings. This risk is mitigated by the Trust's ability to suspend graduation of delinquent students and through a prompt collection process.

The Trust accounts for a specific bad debt provision when management considers that the expected recovery is less than the account receivable. During the year ended December 31, 2016 the Trust recorded expenses of \$Nil (2015 – recoveries of \$11,272).

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### 14. Capital management

The capital structure of the Trust consists of trust equity. The primary objective of the Trust's capital management is to preserve the assets held in order to ensure the Trust is able to achieve its mandate to further the goals, objective and strategic interest of GNWC. To date, management believes that the total trust equity of \$76,515,338 at December 31, 2016 has effectively provided the funds necessary to meet its capital management objectives.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Trust, is reasonable. There were no changes in the Trust's approach to capital management during the year ended December 31, 2016.

Certain government assistance and industry contributions included in contributed surplus are invested in assets that are intended to maintain their value. Investment income earned must be distributed in accordance with the provisions of each respective agreement.

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### 15. Post reporting date events

On February 15, 2017, the Trustee and ECUAD entered into a conditional Purchase and Sale Agreement for Lot 1. The sale closes fifteen business days following the waiver of all mutual subject conditions. Once the mutual subject conditions are waived the Trust will declare distributions to all four shareholders by way of \$14.4 million promissory notes for each. ECUAD's promissory note will be settled and cancelled upon the transfer of title for Lot 1. The other three shareholders will receive cash to settle their promissory notes as cash becomes available through land sales.

Subject to closing the sale of Lot 8 to PCI and satisfaction of the capacity to make the payment, the shareholders approved distributing \$24 million on October 1, 2017 (\$8 million to each non-ECUAD shareholder).

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# Great Northern Way Campus Trust

## Notes to the Financial Statements

December 31, 2016

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### 15. Post reporting date events (continued)

On March 13, 2017 the Trustee entered into a conditional purchase and sale agreement with PCI for Lots 6 and 7. The purchase price of \$24,000,000 will be adjusted with the transfer of the Trust's daycare obligation to PCI.

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### 16. Tenure of the Trust

Under Canadian tax law, trusts are deemed to have disposed of their assets at fair market value every 21 years (subject to certain exceptions). The trust is deemed to have reacquired the assets immediately thereafter at fair market value. Depending upon the circumstances, there may be adverse tax consequences associated with the application of the deemed disposition rule.

The Trust was established in September 2002 and the initial 21 period ends in 2023. The Trust and its shareholders will discuss strategies to deal with this rule.

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### 17. Comparative figures

Certain prior year amounts in the statement of operations have been reclassified to conform with the financial statement presentation in the current year.

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