

SUBJECT	GREAT NORTHERN WAY CAMPUS TRUST (“GNW TRUST”) FINANCIAL STATEMENTS DECEMBER 31, 2017
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MEETING DATE	NOVEMBER 26, 2018
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Forwarded on the Recommendation of the President

APPROVED FOR SUBMISSION



Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date	November 1, 2018
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Presented By Peter Smailes, Vice-President Finance & Operations
Stuart Mackenzie, Interim Comptroller

EXECUTIVE SUMMARY

The Board of Directors of GNW Trust has approved the audited financial statements for the year ended December 31, 2017. The financial statements were prepared by the management of GNW Trust and have been audited by Grant Thornton LLP.

The trustee of GNW Trust is Great Northern Way Campus Ltd. BCIT, Emily Carr University of Art & Design (ECU), 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

- The Master 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.

- CDM 2006 Government Grant – The Trustee manages the CDM 2006 Government Grant, which is invested in two income-producing buildings, a portfolio of marketable securities and cash under Leith Wheeler Investment Counsel. The CDM investments generate revenue to support 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.
- 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:

- Subdivision - The subdivision of the GNW Trust lands into ten individual lots (as well as roads and open space) is separated into five 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.
- Lots 6 and 7 – The Trustee closed on the sale of Lots 6 and 7 to PCI and Low Tide in August of 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.
- Retained lands – The Trustee will progress visioning and design work for retained lands (Lots 2, 3, and 4) subject to the direction of the Shareholders and site constraints from upcoming Millennial Line Broadway Extension project construction.

The Trustee's operations are financially sustainable. In 2017, the Trustee recognized a net income of \$15.7 million mostly related to the sale of land.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

 Learning

 Research

 Innovation

 Engagement
(Internal / External)

 International

or a **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.
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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.
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Financial Statements

Great Northern Way Campus Trust

December 31, 2017

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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, 2017 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, 2017 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Vancouver, Canada
April 4, 2018



Chartered Professional Accountants

Great Northern Way Campus Trust

Statement of Financial Position

December 31		2017	2016
	<u>Note</u>		
Assets			
Non-current			
Investment property	4	\$ 6,373,780	\$ 26,106,776
Property, plant and equipment	5	20,174,774	13,388,216
Investments	6	<u>23,225,231</u>	<u>22,020,455</u>
		<u>49,773,785</u>	<u>61,515,447</u>
Current			
Inventory property	7	4,705,938	6,352,890
Prepaid expenses		142,592	67,147
Accounts receivable	8	358,804	671,063
Cash		<u>14,686,863</u>	<u>23,518,060</u>
		<u>19,894,197</u>	<u>30,609,160</u>
Total assets		<u>\$ 69,667,982</u>	<u>\$ 92,124,607</u>
Equity and liabilities			
Equity			
Contributed surplus		\$ 69,052,064	\$ 67,300,200
Accumulated other comprehensive income (loss)		252,469	(834,327)
Accumulated (deficit) surplus		<u>(32,537,766)</u>	<u>10,049,465</u>
Total equity		<u>36,766,767</u>	<u>76,515,338</u>
Non-current liabilities			
Deferred government assistance	10	<u>10,345,278</u>	<u>11,461,197</u>
Current liabilities			
Accounts payable and accrued liabilities	8	2,496,354	2,161,690
Deposits		67,914	63,288
Deferred revenue		141,817	171,230
Trust distributions payable	11	649,852	1,751,864
Promissory notes payable	12	<u>19,200,000</u>	<u>-</u>
		<u>22,555,937</u>	<u>4,148,072</u>
Total liabilities		<u>32,901,215</u>	<u>15,609,269</u>
Total equity and liabilities		<u>\$ 69,667,982</u>	<u>\$ 92,124,607</u>

Commitments (Note 13)
Post reporting date events (Note 16)

On behalf of the Trust:

 Director  Director

Great Northern Way Campus Trust

Statement of Operations and Comprehensive Income

Year ended December 31		2017	2016
	<u>Note</u>		
Revenue			
Academic Programs		\$ 2,978,011	\$ 2,421,957
Property Management		2,135,621	2,041,396
Endowment Management		571,433	808,429
Real Estate Development		345,011	91,244
Gain on sale of portfolio investments		297,903	569,578
Recognition of deferred government assistance	10	1,115,919	1,609,816
Recognition of deferred industry contributions		-	261,836
Proceeds from Land Sales		<u>31,525,000</u>	<u>20,729,120</u>
Total revenue		<u>38,968,898</u>	<u>28,533,376</u>
Operating expenses			
Academic Programs	8	3,661,265	3,205,869
Property Management		1,900,775	1,852,355
Endowment Management		307,829	272,622
Real Estate Development		272,441	358,893
Depreciation		1,686,913	1,659,829
Cost of Sale of Inventory Property	7	<u>15,477,054</u>	<u>7,270,723</u>
Total operating expenses		<u>23,306,277</u>	<u>14,620,291</u>
Net income		<u>15,662,621</u>	<u>13,913,085</u>
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Unrealized gain on investments		975,719	583,046
Derecognition of unrealized loss on sale of investments		<u>111,077</u>	<u>743,430</u>
Other comprehensive income		<u>1,086,796</u>	<u>1,326,476</u>
Comprehensive income		<u>\$ 16,749,417</u>	<u>\$ 15,239,561</u>

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Statement of Trust Equity

Year ended December 31, 2017

	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated (deficit) surplus	2017 Total	2016 Total
Balance, beginning of year	\$ 67,300,200	\$ (834,327)	\$ 10,049,465	\$ 76,515,338	\$ 61,290,997
Net income	-	-	15,662,621	15,662,621	13,913,085
Contributions	1,751,864	-	-	1,751,864	1,736,644
Distributions declared	-	-	(58,249,852)	(58,249,852)	(1,751,864)
Other comprehensive income	-	1,086,796	-	1,086,796	1,326,476
Balance, end of year	\$ 69,052,064	\$ 252,469	\$ (32,537,766)	\$ 36,766,767	\$ 76,515,338

Great Northern Way Campus Trust

Statement of Cash Flows

Year ended December 31

2017

2016

Cash derived from (applied to)

Operating activities

Net income	\$ 15,662,621	\$ 13,913,085
Gain on sale of portfolio investments	(297,903)	(569,578)
Items not involving cash		
Recognition of deferred government assistance	(1,115,919)	(1,609,816)
Recognition of deferred industry contributions	-	(261,836)
Depreciation	1,686,913	1,659,829
Settlement of ECU promissory note	(14,400,000)	-

	1,535,712	13,131,684
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Changes in non-cash working capital items

Inventory property	15,477,054	7,270,723
Prepaid expenses	(75,445)	23,348
Accounts receivable	312,259	(272,835)
Accounts payable and accrued liabilities	(213,144)	237,979
Deposits	4,626	(2,688)
Deferred revenue	(29,413)	18,382

Net cash flow from operating activities

	17,011,649	20,406,593
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Investing activities

Proceeds on sale of investment	1,814,771	14,720,156
Purchase of investments	(1,165,000)	(8,119,380)
Reinvested income on investments	(469,848)	(704,216)
Investment property	(1,968,630)	(4,101,025)
Property, plant and equipment	(41,718)	(71,200)
Financing fees paid	(12,421)	(35,808)

Net cash flow from investing activities

	(1,842,846)	1,688,527
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Financing activities

Repayments from related parties	-	4,933
Distributions	(1,751,864)	(1,736,644)
Promissory note repayments	(24,000,000)	-
Contributions	1,751,864	1,736,644

Net cash flow from financing activities

	(24,000,000)	4,933
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(Decrease) increase in cash

	(8,831,197)	22,100,053
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Cash, beginning of year

	23,518,060	1,418,007
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Cash, end of year

	\$ 14,686,863	\$ 23,518,060
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Non-cash financing activities

Distributions declared and settled with promissory notes	\$ 57,600,000	\$ -
Trust distributions payable	649,852	1,751,864
Investment property additions included in accounts payable and accrued liabilities	1,423,546	875,738

See accompanying notes to the financial statements.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

1. General information and nature of operations

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 shareholder’s 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 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.

Established by a higher education consortium, Great Northern Way Campus (“GNW”) is dedicated to building a thriving and innovative community with a digital media vision including academic, economic and real estate development. GNW’s Corporate Management manages the programs, assets, land and income under guidance from a Board of Directors representing education, technology and urban transformation, and from our post-secondary Shareholders, UBC, SFU, ECUAD, and BCIT.

Business activities

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

- i. Academic Programs
The Master of Digital Media (MDM) Program offers a multi-disciplinary professional graduate degree in digital media. SFU provides management for the MDM and select programs. The Academic Committee provides oversight, strategic vision and planning for the Academic Program. The 16-month MDM Program involves coursework and an internship with a company in the digital media industry. The MDM Program team also organizes other digital media-related programs and activities (e.g., Pre-MDM Program, Tomorrow’s MDM Program, IDEA-X and Industry Showcase).
- ii. Property Management
GNW manages three income-producing buildings through Dorset Realty: Buildings 475, 577 and 685. In addition to generating revenue, the three buildings accommodate vision-aligned tenants to create connections and promote collaboration with students, academic partner institutions and the wider digital media community. The buildings support classrooms, student housing, faculty and staff offices, startup and studio spaces and art galleries. Dorset Realty is responsible for managing and maintaining the CDM district lands, including surface parking areas and open spaces.
- iii. Endowment Management
In 2006, the Province of British Columbia 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 Government Grant has remaining capital (a portfolio of marketable securities and cash) that is managed by Leith Wheeler Investment Counsel. All CDM investments generate revenue to support CDM initiatives.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

1. General information and nature of operations (continued)

Business activities (continued)

- iv. Real Estate Development
Real estate development includes land sales and capitalized projects with a focus on strategic partnership transactions and urban planning for the innovation district.

2. Basis of preparation and statement of compliance with IFRS

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

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, 2017), 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.

Property management

GNW 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 from property management and operating cost recoveries are 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.

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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

3. Significant accounting policies (continued)

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 the term of the 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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

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 GNW's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

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

GNW 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, 2017, GNW 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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

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. GNW's cash and accounts receivable 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. GNW 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. GNW's 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. GNW 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. GNW's accounts payable and accrued liabilities, deposits, and promissory notes 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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

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

GNW has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. GNW has not early adopted any of these standards. The standards, amendments and interpretations that will be relevant to GNW 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. GNW's management have not yet assessed the impact of IFRS 16 on these financial statements.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

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. GNW'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.

GNW'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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

4. Investment property

Investment property consists of development land, buildings and tenant and other improvements included in Lots 2 and 4. GNW'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, 2016	\$ 28,622,505
Additions	2,528,859
Transfer to inventory property	(13,830,102)
Transfer to property, plant and equipment	(10,546,093)
Balance, December 31, 2017	<u>\$ 6,775,169</u>

Accumulated depreciation

Balance, December 31, 2016	\$ 2,515,729
Depreciation	776,318
Transfer to property, plant and equipment	(2,890,658)
Balance, December 31, 2017	<u>\$ 401,389</u>

Net book value

December 31, 2016	\$ 26,106,776
December 31, 2017	6,373,780

As at December 31, 2017, the fair values of investment properties, estimated using observable data on recent transactions, property tax assessments and recent yields for similar properties, approximated \$14,400,000.

Investment property additions during the year ended December 31, 2017 includes capitalized borrowing costs of \$12,421 (2016 - \$35,808) which were incurred on the letters of guarantee disclosed in Note 13.

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

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

5. Property, plant and equipment

Property, plant and equipment includes the Lot 3 and Lot 10 buildings and land used in the supply of services and for administrative purposes.

	Land	Buildings and improvements	Furniture and fixtures	Office equipment	Computer equipment	Computer software	Total
Cost							
Balance, December 31, 2016	\$ 1,472,221	\$ 14,715,138	\$ 1,171,859	\$ 435,754	\$ 1,727,507	\$ 173,733	\$ 19,696,212
Additions	-	-	9,703	8,134	23,881	-	41,718
Transfer from investment property	4,777,669	5,768,424	-	-	-	-	10,546,093
Balance, December 31, 2017	\$ 6,249,890	\$ 20,483,562	\$ 1,181,562	\$ 443,888	\$ 1,751,388	\$ 173,733	\$ 30,284,023
Accumulated depreciation							
Balance, December 31, 2016	\$ -	\$ 3,409,501	\$ 609,139	\$ 413,975	\$ 1,701,648	\$ 173,733	\$ 6,307,996
Depreciation	-	772,082	116,237	2,827	19,449	-	910,595
Transfer from investment property	-	2,890,658	-	-	-	-	2,890,658
Balance, December 31, 2017	\$ -	\$ 7,072,241	\$ 725,376	\$ 416,802	\$ 1,721,097	\$ 173,733	\$ 10,109,249
Net book value							
December 31, 2016	\$ 1,472,221	\$ 11,305,637	\$ 562,720	\$ 21,779	\$ 25,859	\$ -	\$ 13,388,216
December 31, 2017	6,249,890	13,411,321	456,186	27,086	30,291	-	20,174,774

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

6. Investments

	2017		2016	
	Historical Cost	Market Value	Historical Cost	Market Value
Leith Wheeler Active Bond Fund Series A	\$ 9,090,574	\$ 8,751,844	\$ 8,405,774	\$ 8,065,781
Leith Wheeler Canadian Equity Fund Series A	6,411,968	7,062,746	6,674,833	6,830,482
Leith Wheeler US Equity Fund Series A	3,379,304	3,466,565	3,650,000	3,562,549
Leith Wheeler International Pooled Fund Series A	3,671,466	3,524,626	4,124,175	3,561,643
Leith Wheeler Money Market Fund Series A	419,450	419,450	-	-
	\$22,972,762	\$ 23,225,231	\$ 22,854,782	\$22,020,455

7. Inventory property

	2017	2016
Balance, beginning of year	\$ 6,352,890	\$ 13,326,620
Transfer from investment property	13,830,102	296,993
Sale of inventory property	(15,477,054)	(7,270,723)
Balance, end of year	\$ 4,705,938	\$ 6,352,890

The fair value of property included in inventory property is \$19,000,000.

In August 2015, GNW entered into a purchase and sale agreement to sell Lot 8 for \$17.125M which closed in November 2017.

In February 2017, GNW entered into a conditional purchase and sale agreement to sell Lot 1 for \$14.4M. The sale closed in June 2017.

In March 2017, GNW entered into a conditional purchase and sale agreement to sell Lots 6 and 7 for \$24M with an adjustment of \$5M for the transfer of GNW's daycare obligation. The sale is expected to close in the second quarter of 2018.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

8. Related party transactions and balances

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

	<u>2017</u>	<u>2016</u>
Included in accounts receivable		
SFU	\$ 51,941	\$ 77,028
Included in accounts payable		
SFU	\$ 213,882	\$ 363,004
ECUAD	-	4,480
Interest income		
ECUAD	\$ -	\$ 33
Management fee expense		
SFU	\$ 162,193	\$ 125,414

Compensation of key management personnel are as follows:

Salaries	\$ 618,387	\$ 714,537
Bonuses	128,003	92,266
Employee benefits	<u>64,000</u>	<u>118,200</u>
	<u>\$ 810,390</u>	<u>\$ 925,003</u>

9. Bank indebtedness

GNW 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, 2017, the balance of the bank indebtedness was \$Nil (2016 - \$Nil).

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

10. Deferred government assistance

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 11,461,197	\$ 13,071,013
Less:		
Government assistance used for buildings and improvements	-	(493,897)
Amortized to revenue	<u>(1,115,919)</u>	<u>(1,115,919)</u>
Balance, end of year	<u>\$ 10,345,278</u>	<u>\$ 11,461,197</u>

On April 3, 2006, GNW 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 GNW. The remaining \$39 million grant was intended for use as follows:

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

11. Notes payable

	<u>2017</u>	<u>2016</u>
BCIT	\$ 162,463	\$ 437,966
ECUAD	162,463	437,966
SFU	162,463	437,966
UBC	<u>162,463</u>	<u>437,966</u>
	<u>\$ 649,852</u>	<u>\$ 1,751,864</u>

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

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

12. Promissory notes payable

	<u>2017</u>	<u>2016</u>
BCIT	\$ 6,400,000	\$ -
SFU	6,400,000	-
UBC	<u>6,400,000</u>	<u>-</u>
	<u>\$ 19,200,000</u>	<u>\$ -</u>

The principal of the promissory notes payable is adjusted for positive changes in inflation starting from September 1, 2017 using the BC Stats Consumer Price Index. The shareholders of the Trust have agreed that any negative changes in inflation will not result in the promissory note value decreasing below the face value of the original note issued on September 1, 2017. The promissory notes are unsecured and will be settled over time.

13. Commitments

- (a) GNW has provided letters of guarantee totalling \$1,380,261 (2016 - \$2,284,676) 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 GNW 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 GNW. This agreement obligates GNW 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 GNW in the coming years as part of its site development plan.
 - (c) Effective September 1, 2010, GNW 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. GNW 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.
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Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

14. 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, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Available-for-sale				
Investments	\$ 23,225,231	\$ 23,225,231	\$ 22,020,455	\$ 22,020,455
Loans and receivables				
Cash	14,686,863	14,686,863	23,518,060	23,518,060
Accounts receivable	358,804	358,804	671,063	671,063
	<u>15,045,667</u>	<u>15,045,667</u>	<u>24,189,123</u>	<u>24,189,123</u>
	<u>\$ 38,270,898</u>	<u>\$ 38,270,898</u>	<u>\$ 46,209,578</u>	<u>\$ 46,209,578</u>
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	\$ 2,496,354	\$ 2,496,354	\$ 2,161,690	\$ 2,161,690
Deposits	67,914	67,914	63,288	63,288
Trust distributions payable	649,852	649,852	1,751,864	1,751,864
Promissory notes payable	19,200,000	19,200,000	-	-
	<u>\$ 22,414,120</u>	<u>\$ 22,414,120</u>	<u>\$ 3,976,842</u>	<u>\$ 3,976,842</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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

14. 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>
December 31, 2017				
Investments	\$ -	\$ 23,225,231	\$ -	\$ 23,225,231
December 31, 2016				
Investments	\$ -	\$ 22,020,455	\$ -	\$ 22,020,455

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 GNW's proportionate share of underlying net assets at fair value determined using closing market values.

(c) Risk management

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

Equity price risk

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

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

Liquidity risk

Liquidity risk is the risk that GNW is not able to meet its financial obligations as they become due, or can only do so at excessive cost. GNW 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, 2017, GNW has cash of \$14,686,863 to settle current accounts payable and accrued liabilities of \$2,496,354. All of GNW's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

14. Financial instruments (continued)

(c) Risk management (continued)

Credit risk

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

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

GNW 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, 2017 GNW recorded expenses of \$5,000 (2016 – \$Nil).

15. Capital management

The capital structure of GNW consists of trust equity. The primary objective of GNW's capital management is to preserve the assets held in order to ensure GNW 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 \$36,766,767 at December 31, 2017 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 GNW, is reasonable.

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.

16. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

17. 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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2017

18. 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.
