THE UNIVERSITY OF BRITISH COLUMBIA

REPORT TO THE BOARD OF GOVERNORS

SUBJECT	**UBC PROPERTIES INVESTMENTS LTD - FINANCIAL STATEMENTS MARCH 31, 2019**
MEETING DATE	**NOVEMBER 26, 2019**

APPROVED FOR SUBMISSION

Forwarded on the Recommendation of the President

Santa J. Ono, President and Vice-Chancellor

	FOR INFORMATION
Report Date	November 1, 2019
Presented By	Peter Smailes, Vice-President Finance & Operations Karamjeet Heer, Comptroller Aubrey Kelly, President & CEO, UBC Properties Trust

EXECUTIVE SUMMARY

The UBC Properties Investments Ltd ("UBCPIL") Board of Directors has approved the audited financial statements for the year ended March 31, 2019. The financial statements were prepared by UBCPIL management and have been audited by Deloitte LLP.

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

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

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

During the 2018/19 fiscal year, UBCPT leased one market housing site to Wall Financial for $82.9 million ($66.9 million net). Profit participation of $1.1 million was received from Adera and Polygon for prior year transactions. An Offer to Lease was executed with Polygon during the year and is scheduled to close in the following fiscal year (March 2020). Note that a new accounting standard was introduced which required UBCPT to record the future participation proceeds on land transactions (previously only recorded as received). As a result, $95.3 million was recorded as an adjustment to Opening Retained Earnings (for prior land transactions) and $9.1 million was recorded to current year earnings. UBCPT also earned development management fees in the amount of $2.8 million from UBC relating to various institutional projects at UBC Vancouver and UBC Okanagan.

Revenues from the rental portfolio increased from $38.8 million to $46.3 million. The addition of Cypress and Pine House added $3.8 million in revenues to the portfolio with the balance attributable to incremental rent increases. The total rental portfolio consists of 685 faculty and staff units, 556 market units, 219 student units and approximately 397,000 square feet of office/retail/research space.

During the year, UBCPT had $30.9 million of new borrowing from UBC Treasury for its projects (Wesbrook neighbourhood servicing, Mundell House, Focal, and Oakwood & Georgia Point) offset by a $5.9 million repayment associated with the land sale. The outstanding loan balance with UBC Treasury was $27.7 million at year end. A new mortgage of $50.0 million was incurred with the completion of Cypress and Pine. The $150 million jumbo loan facility with RBC had repayments of $69 million leaving an outstanding balance at year end of $14.5 million. The weighted average rate of long-term debt is 3.72% with an average term to maturity of 9 years.

The Company made distribution payments to UBC throughout the year totalling $93.5 million.

STRATEGIC CORE AREAS SUPPORTED

☐ **People and Places** ☐ **Research Excellence** ☐ **Transformative Learning** ☐ **Local / Global Engagement**

DESCRIPTION & RATIONALE	UBC is required to prepare audited consolidated financial statements on an annual basis, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. The financial statements of UBC Properties Investments Ltd. 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.

Consolidated Financial statements of UBC Properties Investments Ltd.

March 31, 2019

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Independent Auditor's Report

To the Shareholder of
UBC Properties Investments Ltd.

Opinion
We have audited the consolidated financial statements of UBC Properties Investments Ltd, which comprise the consolidated statements of financial position as at March 31, 2019, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
May 28, 2019
Vancouver, British Columbia

UBC Properties Investments Ltd.

Consolidated statement of income and comprehensive income

Year ended March 31, 2019

	Notes	2019 $	2018 $
Land sales			
Revenue		**82,912,568**	74,400,000
Participation revenue	12	**10,203,028**	20,066,331
		93,115,596	94,466,331
Cost of sales	10 (b)	**(17,140,441)**	(23,253,464)
		75,975,155	71,212,867
Rental operations			
Revenue		**46,280,963**	38,801,992
Amortization		**(13,270,647)**	(10,700,079)
Operating expenses		**(9,952,294)**	(8,578,982)
		23,058,022	19,522,931
Other income (expense)			
Management fees	10 (a)	**2,795,855**	3,830,257
Miscellaneous		**140,552**	177,552
General and administration expenses		**(6,604,600)**	(5,933,863)
		(3,668,193)	(1,926,054)
Income before finance costs		**95,364,984**	88,809,744
Finance costs, net	8	**(9,746,019)**	(12,376,421)
Change in fair value of derivative instruments		**(5,340,276)**	3,966,959
Net income and comprehensive income		**80,278,689**	80,400,282

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

UBC Properties Investments Ltd.

Consolidated statement of changes in equity

Year ended March 31, 2019

	Share capital $	Retained earnings $	Total equity $
Balance, March 31, 2017	100	39,520,330	39,520,430
Net income and comprehensive income	—	80,400,282	80,400,282
Distributions declared to shareholder	—	(90,666,716)	(90,666,716)
Balance, March 31, 2018, as originally reported	100	29,253,896	29,253,996
Change in accounting policy (Note 3)	—	95,271,916	95,271,916
Balance, April 1, 2018, as restated	100	124,525,812	124,525,912
Net income and comprehensive income	—	80,278,689	80,278,689
Distributions declared to shareholder	—	(93,487,181)	(93,487,181)
Balance, March 31, 2019	**100**	**111,317,320**	**111,317,420**

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

UBC Properties Investments Ltd.
Consolidated statement of financial position
As at March 31, 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		**11,826,362**	47,352,674
Investments		**660,194**	914,146
Funds held in trust	11	**5,157,300**	29,009,400
Derivative instruments	8 and 13	**—**	1,723,483
Due from related parties	7	**23,024,199**	29,312,868
Amounts receivable	3 (h)(i)	**69,377,600**	5,555,848
Properties under development and held for sale	5	**4,555,615**	10,412,778
		114,601,270	124,281,197
Investments		**2,076,918**	1,305,588
Amounts receivable	3 (h)(i)	**40,799,456**	1,347,340
Due from related parties	7	**—**	2,830,232
Equipment and leasehold improvements		**266,077**	246,882
Properties under development and held for sale	5	**45,467,303**	41,673,599
Investment properties	6	**388,831,089**	364,011,658
		592,042,113	535,696,496
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**16,886,414**	19,458,150
Deferred revenue	11	**5,157,300**	29,009,400
Derivative instruments	8 and 13	**3,616,793**	—
Due to related party	9	**1,643,018**	12,997,873
Holdbacks payable		**7,985,955**	9,055,100
Distributions payable to UBC	9	**53,945,907**	40,359,367
Current portion of loans payable	8	**55,952,656**	80,849,976
		145,188,043	191,729,866
Loans payable	8	**335,536,650**	314,712,634
		480,724,693	506,442,500
Shareholder's equity			
Share capital			
Authorized			
100,000 common shares, without par value			
Issued			
100 common shares		**100**	100
Retained earnings		**111,317,320**	29,253,896
		111,317,420	29,253,996
		592,042,113	535,696,496

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

Approved by the Board

_____ Director

_____ Director

UBC Properties Investments Ltd.
Consolidated statement of cash flows
Year ended March 31, 2019

	2019 $	2018 $
Operating activities		
Net income	**80,278,689**	80,400,282
Items not involving cash		
Amortization of equipment and leasehold improvements	**115,035**	119,031
Amortization of investment properties	**14,068,699**	11,518,473
Finance costs expensed, net	**9,746,019**	12,376,421
Change in fair value of derivative instruments	**5,340,276**	(3,966,959)
	109,548,718	100,447,248
Changes in non-cash operating working capital		
Amounts receivable	**(4,620,988)**	814,971
Deferred revenue	**(23,852,100)**	21,569,400
Accounts payable and accrued liabilities	**(2,534,549)**	(6,301,097)
Holdbacks payable	**(1,069,145)**	(3,940,156)
Funds held in trust, net	**23,852,100**	(21,569,400)
	101,324,036	91,020,966
Recovery of property under development and held-for-sale	**17,140,443**	23,253,464
Expenditures on properties under development and held-for-sale	**(15,076,984)**	(16,382,915)
	103,387,495	97,891,515
Investing activities		
Expenditures on investment properties	**(38,888,132)**	(53,823,591)
Purchase of investments	**(517,378)**	(367,336)
Purchase of equipment and leasehold improvements	**(134,230)**	(106,975)
Due from related parties	**9,118,901**	4,904,551
Finance income received	**856,091**	406,621
	(29,564,748)	(48,986,730)
Financing activities		
Distributions to UBC	**(79,900,641)**	(88,258,759)
Due to related party	**(11,354,854)**	11,342,607
Proceeds from loans payable	**80,947,000**	195,006,269
Repayment of loans payable	**(85,496,822)**	(134,149,393)
Finance interest paid	**(13,427,597)**	(12,122,077)
Transaction costs paid	**(116,145)**	(2,006,957)
	(109,349,059)	(30,188,310)
Change in cash and cash equivalents	**(35,526,312)**	18,716,475
Cash and cash equivalents, beginning of year	**47,352,674**	28,636,199
Cash and cash equivalents, end of year	**11,826,362**	47,352,674

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

1. Nature of operations

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

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

2. Basis of presentation

(a) Statement of compliance

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 23, 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company has control. Subsidiaries are consolidated from the date the Company obtains control, and continue to be consolidated until the date when such control ceases. All intercompany balances, transactions, and unrealized gains and losses are eliminated on consolidation.

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

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

2. Basis of presentation (continued)

(e) Significant accounting judgments, estimates, and assumptions

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with the prior year, except by the estimates and assumptions related to the adoption of IFRS 15, Revenue from Contracts with Customers as detailed in note 3(a). There are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements.

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

(i) Investment properties

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

(ii) Development costs

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

(iii) Fair value of investment properties

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

2. Basis of presentation (continued)

(iv) Measurement of variable consideration

On the sale of certain prepaid land leases, the purchase price may contain a component that is dependent on the future profitability of the condominium development. For the variable component, management estimates the expected value of the Company's share of the condominium development's profit and records this additional revenue when the land lease sale is recognized.

Critical assumptions and estimates are incorporated when determining the expected variable revenue for the underlying condominium development being built by third party developers, determining the probabilities for each potential outcome and the timing of the collection of these amounts. Based on the estimated timing of collection, the Company then discounts these amounts to the present value at the statement of financial position date based on an estimated discount rate that reflects the credit characteristics of the developer in the arrangement.

The revenue recognition policy is provided in Note 3(h)(i).

3. Significant accounting policies

(a) Adoption of new accounting standards

(i) IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers as at April 1, 2018. The standard provides for a single model that applies to contracts with customers, as well as two revenue recognition approaches: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, when and how much revenue is recognized. New thresholds have been established for estimates and judgments, which may affect the amount of revenue recognized and/or the timing of recognition. As a result, the Company changed its accounting policy for revenue recognition.

The Company has applied the impact of the change in the revenue recognition accounting policy retrospectively, using the practical expedients approach. Accordingly, the cumulative prior years' impact of contracts in process prior to April 1, 2018, which had a variable component of revenue not previously recognized of $95,271,916 has been recorded as an adjustment to opening retained earnings and amounts receivable. As a result, the comparative information has not been restated and is reported in accordance with IAS 18 and IAS 11.

(ii) Impact of initial application of IFRS 9 Financial Instruments

The Company adopted IFRS 9 Financial Instruments as at April 1, 2018. The standard sets out new requirements for the classification and measurement of financial assets and liabilities. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39 Financial Instruments.

The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The standard also amends the impairment model by applying a new "expected credit loss" impairment model.

The adoption of IFRS 9 had no material impact to the classification or measurement of the Company's financial assets and financial liabilities.

3. Significant accounting policies (continued)

(b) Properties under development and held for sale

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

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

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

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

(c) Investment properties

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

(i) Costs

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

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

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

3. Significant accounting policies (continued)

(i) Costs (continued)

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

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

(ii) Amortization

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

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

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

(iii) Fair value

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

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

When management obtains an independent appraisal of a property, it is reviewed to ensure the assumptions used are reasonable. The fair value amounts disclosed in Note 6 reflect the assumptions used in the approaches above.

(d) Impairment

(i) Financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost or at fair value through other comprehensive income.

The Company uses historical patterns for the probability of default, the timing of collection and the amount of the incurred credit loss, which are adjusted based on management's judgment about whether current economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

3. Significant accounting policies (continued)

(i) Financial assets (continued)

The amount of an impairment loss on a financial asset measured at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows calculated using the financial asset's original effective interest rate. Losses are recognized in profit or loss, and applied against trade and other receivables through a loss allowance account.

A loss allowance for expected credit losses on a financial asset is recognized when there is reasonable and supportable information indicative of significant increases in credit risk since initial recognition. Subsequently, an impairment gain or loss is recognized in profit or loss, at an amount that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9.

(ii) Non-financial assets

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

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

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

(e) Cash and cash equivalents

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

(f) Investments

Investments consist of highly liquid Guaranteed Investment Certificates that mature in 36 months or less.

(g) Equipment and leasehold improvements

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

3. Significant accounting policies (continued)

(h) Revenue recognition

(i) Prepaid lease sales

The sale of prepaid leases to developers is recognized as revenue when the contract for sale has been entered into and all performance obligations of the contract have been met including the transfer of control of the prepaid lease ("Contract Closing").

For prepaid lease contracts that contain variable revenue component (Note 2(d)(iv)), the variable consideration is recorded at Contract Closing. The estimate amount receivable is reviewed throughout the term of the contract with adjustments recorded prospectively to the amounts receivable and revenue based on management's estimates and assumptions using the most current information available at that time.

Up until the amount of variable revenue is received, the Company records interest income on an annual basis on the amount receivable using the effective interest rate at the time of Contract Closing.

(ii) Management fees

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

(iii) Rental operations

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

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

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

(i) Financial instruments

All financial instruments are measured at fair value on initial recognition and their measurement in subsequent periods depends on the instrument's classification. Financial instruments are measured subsequently in their entirely at either amortized cost or fair value, depending on the classification of the financial instruments. The classification of financial assets depends on the business model of the entity and the characteristics of the financial asset. The Company adopts a business model whose objective is to hold financial assets in order to collect contractual cash flows and its financial assets are considered solely payments of principal and interest, therefore, the Company's financial assets, other than derivatives, are subsequently measured at amortized cost.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Financial liabilities held by the Company, other than the derivatives, are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at fair value through profit and loss, therefore, are measured subsequently at amortized cost using the effective interest method.

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

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

(j) Finance income and finance costs

Finance income comprises interest income from investments and certain amounts receivable and is recognized in the period it is earned and collection is reasonably assured.

(k) Provisions

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

(l) Future accounting changes

The Company has not early adopted the following new standard.

(i) Effective for annual periods beginning on or after January 1, 2019.

IFRS 16 Leases

This standard specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single leasee accounting model, requiring leasees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Company is currently assessing the impact upon adopting this standard.

4. Land development agreement

On October 26, 2006, the Company entered into a land development agreement with UBC to lease certain lands for a term of 99 years. The agreement was amended on January 10, 2015 to extend the expiry date of the remaining lot leases to December 31, 2030 and to add additional lots for lease. As part of the amended agreement, payments of $1,309,000 per acre or portion thereof are payable to UBC on the closing of the sale of an individual lot lease. During the year, ended March 31, 2019, the right to develop one lot (one lot in 2018) was sold to a third party and the appropriate amount was paid to UBC in accordance with the agreement.

5. Properties under development and held for sale

During the year, the Company capitalized financing costs of $60,877 ($125,512 in 2018) to properties under development and held for sale. Property under development with a carrying value of $16,652,179 ($22,678,383 in 2018) were charged to cost of sales relating to sale of land leases.

6. Investment properties

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

	2019 Net book value $	2018 Net book value $
Residential	**172,962,191**	131,676,619
Mixed use	**130,093,174**	133,062,964
Commercial	**42,861,952**	44,912,392
	345,917,317	309,651,975
Under development	**42,913,772**	54,359,683
	388,831,089	364,011,658

6. Investment properties (continued)

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

	2019		2018	
	Income-producing	**Under development**	Income-producing	Under development
	$	**$**	$	$
Opening balance				
Buildings	**248,035,049**	**54,359,683**	198,313,180	88,546,059
Significant components	**61,616,926**	**—**	34,847,300	—
	309,651,975	**54,359,683**	233,160,480	88,546,059
Capital additions				
Buildings	**—**	**36,803,849**	—	53,559,490
Significant components	**2,084,283**	**—**	264,102	—
	2,084,283	**36,803,849**	264,102	53,559,490
Transfers	**48,249,760**	**(48,249,760)**	87,745,866	(87,745,866)
Amortization expense				
Buildings	**(8,668,257)**	**—**	(7,527,995)	—
Significant components	**(5,400,443)**	**—**	(3,990,478)	—
	(14,068,701)	**—**	(11,518,473)	—
	345,917,317	**42,913,772**	309,651,975	54,359,683
		388,831,089		364,011,658

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

	2019	2018
	Fair value	Fair value
	$	$
Residential	**490,909,000**	398,609,000
Mixed use	**292,102,000**	275,169,000
Commercial	**119,400,000**	119,983,000
	902,411,000	793,761,000
Under development	**173,121,000**	202,267,000
	1,075,532,000	996,028,000

6. Investment properties (continued)

The capitalization rates used to determine the fair value of the investment properties are as follows:

	2019	2018
	%	%
Residential		
Maximum	**3.75**	3.75
Minimum	**3.75**	3.75
Weighted average	**3.75**	3.75
Mixed use		
Maximum	**5.00**	5.00
Minimum	**3.75**	3.75
Weighted average	**4.07**	4.00
Commercial		
Maximum	**5.00**	5.00
Minimum	**5.00**	5.00
Weighted average	**5.00**	5.00

7. Due from related parties

	2019	2018
	$	$
UBC (a)	**22,935,823**	31,980,753
University Neighbourhood Association (b)	**88,376**	162,347
	23,024,199	32,143,100

(a) The amount due from UBC, the Company's shareholder, is unsecured, non-interest bearing and $22,935,823 ($29,150,521 in 2018) is expected to be repaid in the next fiscal year. The remaining balance of $nil ($2,830,232 in 2018) is to be repaid in future years.

(b) The amount due from the University Neighborhood Association ("UNA"), an entity related by common control, is unsecured, non-interest bearing and is due on or before June 30, 2019.

8. Loans payable

Fixed rate debt mortgages are secured by certain properties with an aggregate carrying value of $349,326,707.

	Weighted average rate %	**Weighted average term**	**2019 Total $**
Fixed Rate Debt:			
Mortgages secured by residential properties	**3.62%**	**7 years**	**180,268,819**
Mortgages secured by mixed use properties	**3.76%**	**12 years**	**130,837,384**
Mortgages secured by commercial properties	**4.01%**	**6 years**	**41,143,796**
	3.72%	**9 years**	**352,249,999**
Floating Rate Debt:			
Non Revolving Term Loans	**3.45%**	**1.0 years**	**14,490,600**
Revolving Term Loans	**0.00%**	**0.2 years**	**—**
Unsecured promissory notes	**2.95%**	**0.3 years**	**27,672,000**
	3.12%	**0.6 years**	**42,162,600**
			394,412,599
Financing costs			**(2,923,293)**
			391,489,306

	Weighted average rate %	Weighted average term	2018 Total $
Fixed Rate Debt:			
Mortgages secured by residential properties	3.49%	7 years	136,519,471
Mortgages secured by mixed use properties	3.76%	13 years	133,771,419
Mortgages secured by commercial properties	4.01%	7 years	42,592,213
	3.68%	9 years	312,883,103
Floating Rate Debt:			
Non Revolving Term Loans	2.53%	1.0 years	43,500,000
Revolving Term Loans	2.07%	0.2 years	40,000,000
Unsecured promissory notes	2.50%	0.3 years	2,582,317
	2.32%	0.6 years	86,082,317
			398,965,420
Financing costs			(3,399,810)
			395,565,610

8. Loans payable (continued)

	2019	2018
	$	$
Current	**55,952,656**	80,849,976
Non-current	**335,536,650**	314,712,634
	391,489,306	395,562,610

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

	Scheduled principal payments	Principal maturities	Total repayment
	$	$	$
2020	11,288,307	45,252,148	56,540,455
2021	11,169,427	25,775,569	36,944,996
2022	10,820,604	4,139,000	14,959,604
2023	10,386,619	20,491,000	30,877,619
2024	10,262,468	—	10,262,468
Thereafter	84,171,558	160,655,899	244,827,457
Total	138,098,983	256,313,616	394,412,599

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

	2019	2018
	$	$
Finance income		
Interest income on amounts receivable discount	**3,446,299**	12,291
Interest income on investments	**790,756**	419,584
	4,237,055	431,875
Finance cost		
Interest on		
Term loans	**423,325**	1,301,347
Promissory notes (Note 10(c))	**316,269**	306,233
Construction loans	**—**	433,771
Mortgages	**13,710,711**	11,992,241
	14,450,305	14,033,592
Financing costs capitalized	**(467,231)**	(1,225,296)
	13,983,074	12,808,296

In addition to the above finance costs, the Company recorded a decrease in the fair value of the derivatives of $5,340,276 (increase of $3,966,959 in 2018).

8. Loans payable (continued)

The Company has an operating overdraft facility of $10 million which bears interest at the bank's prime rate plus 0.1% per annum and is repayable on demand. As at March 31, 2019, $nil ($nil in 2018) is drawn on this facility.

The Company has a $100 million non-revolving loan facility that can be used to repay amounts owing to UBC. The facility bears interest at the bank's prime rate plus 0% per annum and is repayable based on sales of prepaid leases to third party developers. The minimum amount to be repaid is the greater of 35% of the appraised value of the leased development site or 35% of the collected sales proceeds on Contract Closing. The maturity date of the loan facility is December 2020. At March 31, 2019, $14,490,600 ($43,500,000 in 2018) has been drawn on this facility.

The Company also has a $50 million revolving line of credit for general corporate purposes. The line of credit bears interest at the bank's prime rate plus 0% per annum and is renewable on an annual basis. In the event the line of credit is not renewed, the outstanding amount at that time is capped and converted to a three-year reducing facility with the same terms of repayment as the $100 million facility. At March 31, 2019, $nil ($40 million in 2018) has been drawn on this facility. Both the $100 million and $50 million loan facilities are secured by undeveloped properties in Wesbrook Place.

9. Due to related party

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

10. Related party transactions

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

(a) The Company earned project management fees of $2,795,855 ($3,830,257 in 2018) from UBC for development and project management services provided.

(b) The Company expensed in cost of sales $1,899,359 ($3,192,651 in 2018) of base rent and $8,225,112 ($11,079,871 in 2018) in Infrastructure Impact Charges paid to UBC pursuant to the land development agreement (Note 4) and the sale of a development lot during the year.

(c) The Company paid interest of $316,269 ($306,233 in 2018) on the promissory notes owing to UBC.

(d) The Company earned management fees of $60,000 ($60,000 in 2018) from the UNA for property management services pertaining to landscaping in the Hampton Place, Hawthorn Place, Chancellor Place, and Wesbrook neighborhoods.

10. Related party transactions (continued)

The remuneration of the Board of Directors and other key management personnel having the authority and responsibility for planning, directing, and controlling the activities of the Company during the years ended March 31, 2019 and 2018 is as follows:

	Salaries	**Short-term benefits**	**2019 Total**
	$	**$**	**$**
Trust management	**897,733**	**87,453**	**985,186**
Board of Directors	**240,000**	**—**	**240,000**
	1,137,733	**87,453**	**1,225,186**

	Salaries	Short-term benefits	2018 Total
	$	$	$
Trust management	853,132	88,256	941,388
Board of Directors	200,000	—	200,000
	1,053,132	88,256	1,141,388

11. Commitments

(a) The Company has two office premises leases that expire on July 31, 2024 and October 31, 2020. The Company has remaining rent commitments of $160,295 in 2019, $201,814 in 2020 and $142,252 in each year of 2021 to 2023 and $82,980 in 2024.

(b) The Company has committed to construction contracts of $92,058,727 ($20,190,110 in 2018).

(c) In March 2019, the Company entered into an Offer to Lease for one lot in Wesbrook Place. A deposit of $5,157,300 ($29,009,400 in 2018) is being held in Company with an equivalent amount recorded as deferred revenue. Contract Closing is scheduled for March 2020.

12. Variable consideration

For the year ended March 31, 2019, the Company recorded revenue of $10,203,028 ($20,066,331 in 2018) related to the sale of prepaid lease transactions that contain a variable component of revenue. Of this amount, $9,094,133 ($nil in 2018) is an estimate of additional revenues to be received in future years.

The variable consideration amount was calculated using market data for comparable projects in the same neighborhood. Management developed a methodology in which different profitability scenarios for the underlying projects are calculated and probabilities are estimated for each scenario ultimately resulting in the variable consideration amount.

13. Financial instruments

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

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

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

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

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

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

The fair value of the derivative instruments, being interest rate swaps, are based on the mark-to-market price from the financial institution at March 31, 2019. The carrying value of the related loans at March 31, 2019 is $154,635,000 ($109,829,000 in 2018).

	2019		2018	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Mortgages	**352,249,999**	**385,565,048**	312,880,103	319,168,675
Term loans	**14,490,600**	**14,490,600**	83,500,000	83,500,000
Promissory note	**27,672,000**	**27,672,000**	2,582,317	2,582,317
	394,412,599	**427,727,648**	398,962,420	405,250,992

14. Management of risks arising from holding financial instruments

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

(a) Interest rate risk and liquidity risk

The time period over which the Company is spreading the fixed term debt maturities implies a weighted average term to maturity of approximately 8 years. This strategy reduces the Company's exposure to re-pricing risk resulting from short term interest rate fluctuations in any one year. Management is of the view that this method will provide the most effective interest rate risk management for debt.

There is interest rate risk associated with the revolving term loans and promissory notes as the interest is impacted by changes in the bank rate. Management limits the use of short term borrowings and converts floating rate debt to fixed rate debt where practicable. A 100 basis point increase in market interest rates would increase the annual floating rate debt service costs by $421,626 ($860,823 in 2018). In addition, there is interest rate risk associated with the Company's fixed rate debt due to the expected requirement to refinance such debt in the year of maturity.

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

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

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

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

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

(b) Credit risk

Credit risk is the risk of loss due to the failure of a debtor or counterparty to fulfill its contractual obligations. The Company has a significant concentration of receivables with its beneficiary, UBC, pertaining to ongoing construction management projects. UBC has an Aa1 credit rating with Moody's and an AA+ rating from Standard and Poor's and the Company expects UBC to meet their ongoing obligations.

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

(c) Capital management policy

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

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

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

(c) Capital management policy (continued)

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

	2019	2018
	$	$
Cash and cash equivalents	**11,826,362**	47,352,674
Investments	**2,737,112**	2,219,734
Mortgage payable	**352,249,999**	312,880,103
Promissory notes payable	**27,672,000**	2,582,317
Non-revolving term loans ($56,500,000 available)	**14,490,600**	43,500,000
Revolving term loans ($50,000,000 available)	**—**	40,000,000
Line of credit facilitiy ($10,000,000 available)	**—**	—
	408,976,073	448,534,828

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