

SUBJECT	GREAT NORTHERN WAY CAMPUS TRUST - FINANCIAL STATEMENTS DECEMBER 31, 2018
MEETING DATE	NOVEMBER 26, 2019

Forwarded on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date November 1, 2019

Presented By Peter Smailes, Vice-President Finance & Operations
 Stuart Mackenzie, Director, Financial Reporting & Budgeting

EXECUTIVE SUMMARY

The Board of Directors of Great Northern Way Campus Trust ("GNW Trust") has approved the audited financial statements for the year ended December 31, 2018. The financial statements were prepared by the management of GNW Trust and have been audited by PricewaterhouseCoopers 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 academic programs (the MDM Program) and was invested in a portfolio investment with the plan to use a portion of the annual market growth to fund the MDM Program. GNW Trust also generates revenue with Real Estate Development.

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

Operating Activities

1. 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.
2. Endowment Management – The Trustee manages the CDM 2006 Government Grant, which is invested in a portfolio of marketable securities and cash under Leith Wheeler Investment Counsel. The CDM investments generate revenue to support CDM initiatives.

3. Property Management – The Trustee outsources property management activities to Dorset Realty. This includes management of two income-producing buildings, as well as maintenance of surface parking areas. 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.

Real Estate Development

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

1. Subdivision - The subdivision of the GNW Trust lands into ten individual lots (as well as roads and open space) is separated into 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.
2. 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.
3. 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 Broadway Subway Line project construction.
4. Lot 4 – Subsequent to the year end, the City of Vancouver gave notice to the Trust that it intends to exercise its rights, giving vacant access to the City to the Lands by April 1st, 2020. The City intends to demolish the building on Lot 4 and use the site as a staging area for the construction of the Broadway Subway Line.

The Trustee's operations are financially sustainable. In 2018, the Trustee recognized a net income of \$12.0 million mostly related to the sale of land.

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 Great Northern Way Campus Trust are included in the audited consolidated financial statements of UBC.
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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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GNW|TRUST

Financial Statements

Great Northern Way Campus Trust

December 31, 2018



Independent auditor's report

To the Shareholders of Great Northern Way Campus Trust

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Great Northern Way Campus Trust (the Trust) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Trust's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of trust equity for the year then ended;
- the statement of operations and comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Comparative information

The financial statements of the Trust for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on April 4, 2018.

PricewaterhouseCoopers LLP

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Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Trust'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 Trust'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 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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 5, 2019

Great Northern Way Campus Trust

Statement of Financial Position

December 31	2018	2017
	<u>Note</u>	
Assets		
Non-current		
Investment property	4	\$ 6,405,229
Property, plant and equipment	5	19,313,039
Investments	6	<u>21,495,042</u>
		<u>47,213,312</u>
		<u>49,773,785</u>
Current		
Inventory property	7	4,705,938
Prepaid expenses		35,177
Accounts receivable		84,699
Cash		<u>13,023,253</u>
		<u>13,143,129</u>
		<u>19,894,197</u>
Total assets	<u>\$ 60,356,441</u>	<u>\$ 69,667,982</u>
Equity and liabilities		
Equity		
Contributed surplus		\$ 69,701,915
Accumulated other comprehensive income		-
Accumulated deficit		<u>(21,111,949)</u>
		<u>(32,537,766)</u>
Total equity	<u>48,589,966</u>	<u>36,766,767</u>
Non-current liabilities		
Deferred government assistance	10	<u>8,904,409</u>
		<u>8,904,409</u>
		<u>9,607,648</u>
		<u>9,607,648</u>
Current liabilities		
Accounts payable and accrued liabilities		1,174,308
Deposits		70,297
Deferred revenue		134,935
Trust distributions payable	11	779,287
Promissory notes payable	12	-
Current portion of deferred government assistance	10	<u>703,239</u>
		<u>2,862,066</u>
		<u>23,293,567</u>
Total liabilities	<u>11,766,475</u>	<u>32,901,215</u>
Total equity and liabilities	<u>\$ 60,356,441</u>	<u>\$ 69,667,982</u>

Commitments (Note 13)
Subsequent events (Note 16)



Director



Director

Great Northern Way Campus Trust

Statement of Operations and Comprehensive Income

Year ended December 31

	<u>Note</u>	2018	2017
Revenue	18		
Academic Programs		\$ 3,241,628	\$ 2,978,011
Property Management		1,762,508	2,135,621
Endowment Management (Investment Income)		1,094,851	571,433
Realized gain (loss) on investments		(3,093)	297,903
Real Estate Development		280,513	345,011
Recognition of deferred government assistance	10	737,630	1,115,919
Proceeds from Land Sales		<u>19,000,000</u>	<u>31,525,000</u>
Total revenue		<u>26,114,037</u>	<u>38,968,898</u>
Operating expenses	19		
Academic Programs		3,386,702	3,661,265
Property Management		1,426,698	1,900,775
Endowment Management (Investment Income)		217,593	307,829
Real Estate Development		936,525	272,441
Depreciation		1,312,036	1,686,913
Cost of Goods Sold and Sales	7	<u>4,814,686</u>	<u>15,477,054</u>
Total operating expenses		<u>12,094,240</u>	<u>23,306,277</u>
Net income before the following:		<u>14,019,797</u>	<u>15,662,621</u>
Unrealized loss on investment		<u>(2,067,162)</u>	<u>-</u>
Net income:		<u>11,952,635</u>	<u>15,662,621</u>
Other comprehensive income			
Unrealized gain on investments		-	975,719
Derecognition of unrealized loss on sale of investments		-	111,077
Other comprehensive income		-	1,086,796
Comprehensive income		<u>\$ 11,952,635</u>	<u>\$ 16,749,417</u>

Great Northern Way Campus Trust

Statement of Trust Equity

Year ended December 31, 2018

	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated surplus (deficit)	Total
Balance, January 1, 2017	\$ 67,300,200	\$ (834,327)	\$ 10,049,465	\$ 76,515,338
Net income	-	-	15,662,621	15,662,621
Contributions	1,751,864	-	-	1,751,864
(distributions)	-	-	(58,249,852)	(58,249,852)
Other comprehensive income	-	1,086,796	-	1,086,796
Balance, December 31, 2017	69,052,064	252,469	(32,537,766)	36,766,767
as previously reported				
Transitional adjustment to IFRS 9	-	(252,469)	252,469	-
January 1, 2018 - as restated	69,052,064	-	(32,285,297)	36,766,767
Net income	-	-	11,952,635	11,952,635
Contributions	649,851	-	-	649,851
(distributions)	-	-	(779,287)	(779,287)
Balance, December 31, 2018	<u>\$ 69,701,915</u>	<u>\$ -</u>	<u>\$ (21,111,949)</u>	<u>\$ 48,589,966</u>

Great Northern Way Campus Trust

Statement of Cash Flows

Year ended December 31

2018

2017

Cash derived from (applied to)

Operating activities

Net income	\$ 11,952,635	\$ 15,662,621
Realized loss (gain) on investments	3,093	(297,903)
Items not involving cash		
Recognition of deferred government assistance	(737,630)	(1,115,919)
Unrealized loss on investments	2,067,162	-
Depreciation	1,312,036	1,686,913
Settlement of ECU Promissory Note	-	(14,400,000)
	<u>14,597,296</u>	1,535,712
Changes in non-cash working capital items		
Inventory property	4,705,938	15,477,054
Prepaid expenses	107,415	(75,445)
Accounts receivable	274,105	312,259
Accounts payable and accrued liabilities	(1,322,047)	(213,144)
Deposits	2,383	4,626
Deferred revenue	<u>(6,882)</u>	(29,413)
Net cash flow from operating activities	<u>18,358,208</u>	17,011,649

Investing activities

Proceeds on sale of investment	2,085,353	1,814,771
Purchase of investments	(1,330,568)	(1,165,000)
Reinvested income on investments	(1,094,851)	(469,848)
Acquisitions of investment property	(98,738)	(1,968,630)
Acquisitions of property, plant and equipment	(370,178)	(41,718)
Financing fees paid	<u>(12,836)</u>	(12,421)
Net cash flow from investing activities	<u>(821,818)</u>	(1,842,846)

Financing activities

Distributions	(649,851)	(1,751,864)
Promissory note repayments	(19,200,000)	(24,000,000)
Contributions	<u>649,851</u>	1,751,864

Net cash flow from financing activities

	<u>(19,200,000)</u>	(24,000,000)
Decrease in cash	(1,663,610)	(8,831,197)
Cash, beginning of year	<u>14,686,863</u>	23,518,060

Cash, end of year

\$ 13,023,253 \$ 14,686,863

Non-cash financing activities

Distributions declared and settled with promissory notes	\$ -	\$ 57,600,000
Trust distributions payable	779,287	649,852
Investment property additions in accounts payable and accrued liabilities	420,934	1,423,546

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

1. General information and nature of operations

Great Northern Way Campus Trust (the “Trust”) or “GNW” is a trust established under the laws of the Province of British Columbia. The address of the Trust’s registered office is 140-577 Great Northern Way, Vancouver, BC. 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 (“ECU”), 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 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 team manages the programs, assets, land and income under guidance from a Board of Directors representing education, technology and urban transformation, and from its post-secondary Shareholders, UBC, SFU, ECU, 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

The Trust 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, our academic partner institutions and the wider digital media community. The buildings support classrooms, student housing, faculty and staff offices, start-up and studio spaces and art galleries. Dorset Realty is responsible for managing and maintaining the Centre for Digital Media (CDM) district lands, including surface parking areas and open spaces.

iii. Endowment Management (Portfolio Investment)

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 as disclosed in note 10. There are no restrictions or conditions attached to these investments. All CDM investments generate revenue to support CDM initiatives.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

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 Trust's innovation district.

2. Basis of preparation and statement of compliance with IFRS

The financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars. The financial statements have been prepared on a historical cost basis except for those items measured at fair value as explained below. These accounting policies have been consistently applied to all periods presented, unless otherwise stated.

These financial statements were approved for issue by the Board of Directors on April 5, 2019.

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, 2018), or which have been adopted early.

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

New standards and interpretations adopted

The Trust has applied the following new standards for the first time for its annual reporting period commencing January 1, 2018:

IFRS 15, Revenue from Contracts with Customers, has been adopted January 1, 2018, using the modified retrospective method without the use of practical expedients. The timing of the recognition of revenue has not changed as a result of adopting the new guidance. The adoption of this standard had no impact on the financial statements and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

IFRS 9, Financial Instruments, has been adopted effective January 1, 2018, retrospectively without restatement of comparatives. The new standard replaces International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, the Trust classifies its financial assets and liabilities as either amortized cost, fair value through other comprehensive income or fair value through profit or loss. The Trust also assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

New standards and interpretations adopted (continued)

For trade receivables, the Trust applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The impact of the changes resulting from this standard is that gains and losses from investments are presented through profit and loss as opposed to other comprehensive income. The impact of these changes is outlined in the Trust's Statement of Trust Equity.

The Trust has adopted amendments pertaining to IAS 40, Investment Property, effective January 1 2018 prospectively. The amendments clarify that to transfer to, or from, investment properties there must be a change in use that is supported by evidence. The carrying amounts of investment properties as at January 1, 2018 were unchanged as a result of adopting this amendment.

Revenue recognition

Land sales

Sales of land are recognized as revenue when the agreement for sale has been entered into and all significant conditions of the agreement have been met including the passage of the risks and control.

Property management

The Trust retains control of ownership of its revenue-producing properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenues 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 over the period of time as 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.

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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

Investment property (continued)

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 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.

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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

Inventory property

Property 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 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

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. GNW uses the fair value less costs of disposal to support that the recoverable amount exceeds the carrying amount and no impairment loss is required.

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.

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, 2018, Great Northern Way Campus Ltd. determined there were no significant decommissioning liabilities associated with its assets.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

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 liabilities are recognized when the Trust becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive or pay cash flows from the assets or liabilities have expired or have been transferred and the Trust has transferred substantially all risks and rewards of ownership.

At initial recognition, the Trust classifies its financial instruments in the following categories:

- a) Financial assets and liabilities at amortized cost (2017 – loans and receivables): The Trust classifies its financial assets at amortized cost only if both of the following criteria are met:
 - i) the asset is held within a business model whose objective is to collect the contractual cash flows, and
 - ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Trust's financial assets at amortized cost (2017 – loans and receivables) comprise cash and accounts receivable and are included in current assets due to their short-term nature. Accounts receivable are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, financial assets at amortized cost (2017 – loans and receivables) are measured at amortized cost using the effective interest method less a provision for impairment. Financial liabilities at amortized cost include accounts payable and accrued liabilities, trust distributions payable and notes payable. These financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within the normal operating cycle. Otherwise, they are presented as non-current liabilities.

- b) Financial assets at fair value through other comprehensive income (FVOCI): Financial assets at FVOCI comprise:

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

Financial instruments (continued)

- i) Equity securities which are not held for trading and which the Trust has irrevocably elected at initial recognition to recognize in this category,
- ii) Debt securities where the contractual cash flows are solely principal and interest and the objective of the Trust's business model is achieved both by collecting contractual cash flows and selling financial assets.

The Trust currently has not classified any of its financial instruments as FVOCI.

- c) Financial assets at fair value through profit or loss (FVPL): The Trust classifies the following financial assets at FVPL:
 - i) Debt instruments that do not qualify for measurement at either amortized cost or fair value through other comprehensive income,
 - ii) Equity instruments that are held for trading, and
 - iii) Equity instruments for which the Trust has not elected to recognize fair value gains and losses through other comprehensive income.

The Trust's financial assets at FVPL comprise investments (2017 – available for sale financial assets). Investments are initially measured at, and subsequently carried at fair value, with gains and losses recognized through the statement of operations.

Contributed surplus

Contributed surplus includes capital contributions from the partner institutions and government assistance and industry contributions.

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.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

IFRS 16, Leases, replaces the current guidance in IAS 17 and is effective for periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. For lessors, the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). Management is evaluating the impact of the adoption of this standard on its financial statements.

4. Investment property

Investment property consists of development land, buildings and tenant and other improvements included in Lots 2 and 4. Great Northern Way Campus Ltd.’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	2018	2017
Balance, beginning of year	\$ 6,775,169	\$ 28,622,505
Additions	111,571	2,528,859
Transfer to inventory property	-	(13,830,102)
Transfer to property, plant, and equipment	-	(10,546,093)
Balance, end of year	\$ 6,886,740	\$ 6,775,169
Accumulated depreciation		
Balance, beginning of year	\$ 401,389	\$ 2,515,729
Depreciation	-	776,318
Transfer to property, plant, and equipment	80,122	(2,890,658)
Balance, end of year	\$ 481,511	\$ 401,389
Net book value	\$ 6,405,229	\$ 6,373,780

As at December 31, 2018, the fair values of investment properties, estimated using a third party valuation based on observable data on recent transactions, and recent yields for similar properties, approximated \$28,000,000.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

4. Investment property (continued)

The properties are leased out on operating leases. The lease contracts are all non-cancellable from the commencement of the lease. Future minimum lease rentals excluding operating cost recoveries are as follows:

2019	\$ 550,635
2020	340,155
2021	240,730
2022	203,164
2023	37,482
Thereafter	-

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
Additions	-	318,017	700	47,259	4,203	-	370,179
Balance, December 31, 2018	\$ 6,249,890	\$ 20,801,579	\$ 1,182,262	\$ 491,147	\$ 1,755,591	\$ 173,733	\$ 30,654,202
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
Depreciation	-	1,107,990	93,792	6,003	24,129	-	1,231,914
Balance, December 31, 2018	\$ -	\$ 8,180,231	\$ 819,168	\$ 422,805	\$ 1,745,226	\$ 173,733	\$ 11,341,163
Net book value							
December 31, 2017	\$ 6,249,890	\$ 13,411,321	\$ 456,186	\$ 27,086	\$ 30,291	\$ -	\$ 20,174,774
December 31, 2018	\$ 6,249,890	\$ 12,621,348	\$ 363,094	\$ 68,342	\$ 10,365	\$ -	\$ 19,313,039

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

6. Investments

	2018		2017	
	Historical cost	Market value	Historical cost	Market value
Active Bond Fund	\$ 8,863,108	\$ 8,417,774	\$ 9,090,574	\$ 8,751,844
Canadian Equity Fund	7,025,450	6,625,644	6,411,968	7,062,746
US Equity Fund	3,441,482	3,163,619	3,379,304	3,466,565
International Pooled Fund	3,884,348	3,192,656	3,671,466	3,524,626
Money Market Fund	95,348	95,349	419,450	419,450
	\$ 23,309,736	\$ 21,495,042	\$ 22,972,762	\$ 23,225,231

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

7. Inventory property

	2018	2017
Balance, beginning of year	\$ 4,705,938	\$ 6,352,890
Additions	108,748	1,430,373
Transfer from investment property	-	12,399,729
Sale of inventory property	(4,814,686)	(15,477,054)
Balance, end of year	\$ -	\$ 4,705,938

In March 2017, GNW entered into a conditional purchase and sale agreement to sell Lots 6 and 7 for \$19 million. The sale closed in August 2018.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

8. Related party transactions and balances

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

	2018	2017
Included in accounts receivable SFU	\$ -	\$ 51,941
Included in accounts payable SFU ECUAD	\$ 99,570 -	\$ 213,882 -
Management fee expense SFU	\$ 169,152	\$ 162,193
Compensation of key management personnel is as follows:		
Salaries	\$ 494,371	\$ 618,387
Bonuses	\$ 157,640	\$ 74,140
Employee benefits	<u>\$ 88,911</u>	<u>\$ 117,863</u>
	<u>\$ 740,922</u>	<u>\$ 810,390</u>

9. Bank indebtedness

GNW has available a \$5,000,000 facility with a Canadian chartered bank 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, 2018, the balance of the bank indebtedness was \$Nil (2017 - \$Nil).

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

10. Deferred government assistance

	2018 Total	2017 Total
Balance, beginning of year	\$ 10,345,278	\$ 11,461,197
Less:		
Amortized to revenue	(737,630)	(1,115,919)
Balance	<u>9,607,648</u>	10,345,278
Less: Current portion	(703,239)	(737,630)
Balance, end of year	<u>\$ 8,904,409</u>	<u>\$ 9,607,648</u>

11. Trust distributions payable

	2018	2017
BCIT	\$ 194,822	\$ 162,463
ECUAD	194,822	162,463
SFU	194,822	162,463
UBC	<u>194,822</u>	<u>162,463</u>
	<u>\$ 779,288</u>	<u>\$ 649,852</u>

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

12. Promissory notes payable

	2018	2017
BCIT	\$ -	\$ 6,400,000
ECUAD	-	-
SFU	-	6,400,000
UBC	<u>-</u>	<u>6,400,000</u>
	<u>\$ -</u>	<u>\$ 19,200,000</u>

The principal of the promissory notes payable was adjusted for positive changes in inflation starting from September 1, 2017 using the BC Stats Consumer Price Index. The promissory notes were settled in 2018.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

13. Commitments

- (a) GNW has provided letters of guarantee totalling \$423,613 (2017 - \$1,380,261) for various on-site and off-site servicing and street works projects.
- (b) The site is currently zoned pursuant to CD-1 (402) Comprehensive Development Zone. A condition of the CD-1 zoning is related to servicing and engineering commitments both on and off the site. When the site was partially gifted, these commitments 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 and then extended for one more year expiring in December 2019.
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14. Financial instruments

(a) Classification

Classification of financial assets and liabilities is disclosed in Note 3.

(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. The Trust's Investments are within Level 2 hierarchy.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

14. Financial instruments (continued)

Investments are within pooled investment funds valued at the unit value supplied by the pooled fund administrator which represents 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, 2018, GNW has cash of \$13,023,253 to settle current accounts payable and accrued liabilities of \$1,174,307. All of GNW's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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. There are no significant concentrations of credit risk, whether through exposure to individual counterparties or regions.

The Trust applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. During the year ended December 31, 2018, GNW recorded bad debt expenses of \$30,000 (2017 – \$5,000).

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

15. Capital management

The capital structure of Great Northern Way Campus Ltd. 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 GNW. To date, management believes that the total trust equity of \$48,589,966 at December 31, 2018 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. Subsequent events

On March 13, 2019 the City of Vancouver gave notice to the Trust that it intends to exercise its rights, giving vacant access to the City to the Lands by April 1, 2020. This allows the City to demolish the building on Lot 4, currently leased to two tenants. In addition to the requirement to give these tenants twelve months notice of early lease termination, the lease contains a demolition clause requiring the Trust to compensate one of the tenants for the unamortized portion of capital upgrades based on an actuarial formula. This liability cannot be estimated until more information is received from the tenant.

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 year 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, 2018

18. Revenue

The table below outlines the basis on which revenue is recognized in accordance with IFRS 15.

At a point in time		
Proceeds from Land Sales	\$ 19,000,000	\$ 31,525,000
Over time		
Academic Programs	3,241,628	2,978,011
Real estate development	280,513	345,011
Property management (1)	1,762,508	2,135,621

(1) Property management revenue comprises the following:

	2018	2017
Rental Revenue (outside the scope of IFRS 15, base rent)	\$ 1,399,983	\$ 1,356,806
Operating expense recovery	170,764	659,310
Parking revenue	162,054	97,897
Other	29,707	21,608
	\$ 1,762,508	\$ 2,135,621

The Trust has recorded \$134,935 (2017 - \$141,817) of deferred revenue related to residential rent collected in advance; these amounts are expected to be recognized as revenue in the next fiscal year.

Great Northern Way Campus Trust

Notes to the Financial Statements

December 31, 2018

19. Expenses by type

Academic programs, property management, endowment management and real estate development comprises the following:

Expenses by function or nature

<u>2018</u>	<u>Academic</u>	<u>Property mangement</u>	<u>Endowment</u>	<u>Real estate development</u>
Faculty	\$ 1,085,980	\$ -	\$ -	\$ -
Salaries and benefits	750,588	-	-	-
Scholarships	450,856	-	-	-
Marketing	256,459	-	-	-
Academic Delivery	262,658	-	-	-
Corporate Management	263,217	157,449	112,807	224,915
Management Fee	169,152	101,959	104,785	-
Security	-	217,991	-	-
Utilities	-	250,829	-	-
Repairs and Maintenance	-	350,543	-	-
Operations	-	318,520	-	-
Inflation Adjustment on Promissory Note	-	-	-	579,508
Other	<u>147,792</u>	<u>29,407</u>	<u>-</u>	<u>132,102</u>
	<u>\$ 3,386,702</u>	<u>\$ 1,426,698</u>	<u>\$ 217,593</u>	<u>\$ 936,525</u>
<u>2017</u>	<u>Academic</u>	<u>Property mangement</u>	<u>Endowment</u>	<u>Real estate development</u>
Faculty	\$ 1,097,964	\$ -	\$ -	\$ -
Salaries and benefits	791,293	-	-	-
Scholarships	488,858	-	-	-
Marketing	346,988	-	-	-
Academic Delivery	354,407	-	-	-
Corporate Management	211,300	180,737	211,300	211,300
Management Fee	162,193	101,052	96,529	-
Security	-	187,195	-	-
Utilities	-	713,745	-	-
Repairs and Maintenance	-	302,842	-	-
Operations	-	350,550	-	-
Other	<u>208,262</u>	<u>64,653</u>	<u>-</u>	<u>61,141</u>
	<u>\$ 3,661,265</u>	<u>\$ 1,900,775</u>	<u>\$ 307,829</u>	<u>\$ 272,441</u>

20. Comparative figures

Deferred government assistance in the statement of financial position has been reclassified breaking out the current portion to conform with the financial statement presentation in the current year.