

MaRS Discovery District

Financial Statements
March 31, 2020



Independent auditor's report

To the Board of Directors of MaRS Discovery District

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MaRS Discovery District (the Organization) as at March 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2020;
 - the statement of operations for the year then ended;
 - the statement of changes in net assets 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 Organization 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.

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 Canadian accounting standards for not-for-profit organizations, 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

Those charged with governance are responsible for overseeing the Organization'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 Organization'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 Organization'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 Organization 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, Licensed Public Accountants

Toronto, Ontario
June 29, 2020

MaRS Discovery District
Statement of Financial Position
As at March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

| | 2020 | 2019 (note 18) |
|---|----------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash (note 3) | \$8,634 | \$19,531 |
| Receivables and prepayments (note 4) | 3,657 | 2,926 |
| Government receivables | 1,441 | 2,227 |
| Due from related parties (note 5) | 376 | 857 |
| | <hr/> \$14,108 | <hr/> \$25,541 |
| Due from related parties (note 5) | - | 234 |
| Long-term receivable | 70 | 70 |
| Investments (note 6) | 1,094 | 1,012 |
| Cash and investments (note 3) | 15,000 | 14,834 |
| Investment in related parties (note 7) | 36,162 | 37,405 |
| Capital assets (note 10) | 198 | 1,116 |
| | <hr/> \$66,632 | <hr/> \$80,212 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$4,831 | \$6,029 |
| Deferred revenue | 926 | 1,889 |
| Restricted contributions (note 12) | 7,374 | 17,076 |
| | <hr/> \$13,131 | <hr/> \$24,994 |
| Long-term restricted contributions (note 13) | \$10,000 | \$9,834 |
| Net Assets | | |
| Unrestricted | \$2,141 | \$1,863 |
| Internally restricted (note 14) | 41,360 | 43,521 |
| | <hr/> \$43,501 | <hr/> \$45,384 |
| | <hr/> \$66,632 | <hr/> \$80,212 |
| Contingencies (note 15) | | |

Approved by the Board of Directors

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District
Statement of Operations
For the year ended March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

| | 2020 | 2019 |
|---|------------------------|------------------------|
| Revenues | | |
| Restricted provincial grants (note 12) | \$11,543 | \$16,620 |
| Restricted federal grants (note 12) | 6,051 | 3,363 |
| Professional fees | 5,190 | 3,761 |
| Restricted other grants and donations (note 12) | 4,717 | 3,281 |
| Sponsorship and partnership revenue | 2,831 | 3,761 |
| Events fees | 1,802 | 2,171 |
| Related party revenue (note 5) | 713 | 1,011 |
| Other income | 545 | 1,012 |
| | <hr/> 33,392 | <hr/> 34,980 |
| Partner payments (note 12) | 9,214 | 14,134 |
| | <hr/> \$42,606 | <hr/> \$49,114 |
| Expenses | | |
| Employees and contractors | \$23,478 | \$23,293 |
| Program operating | 5,046 | 6,455 |
| Outsourced services | 3,091 | 3,426 |
| Rent expense (note 5) | 2,819 | 2,775 |
| Supplies | 1,877 | 1,840 |
| Administration and other | 1,157 | 1,213 |
| Amortization | 759 | 488 |
| | <hr/> 38,227 | <hr/> 39,490 |
| Partner payments (note 12) | 9,214 | 14,134 |
| | <hr/> \$47,441 | <hr/> \$53,624 |
| | (\$4,835) | (\$4,510) |
| Income of MaRS Phase 1 Investment Fund (note 7) | <hr/> \$4,827 | <hr/> \$4,761 |
| | <hr/> (\$8) | <hr/> \$251 |
| (Loss) of MaRS Phase 2 Investment Fund (note 7) | <hr/> (1,875) | <hr/> (2,534) |
| Net (loss) for the year | <hr/> (\$1,883) | <hr/> (\$2,283) |

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District
Statement of Changes in Net Assets
For the year ended March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

| | 2020 | | |
|---------------------------------------|---------------------|--|-----------------|
| | Unrestricted | Internally restricted (note 14) | Total |
| Net assets – beginning of year | \$1,863 | \$43,521 | \$45,384 |
| Net (loss) for the year | (1,883) | - | (1,883) |
| Inter-fund transfer (note 14) | 2,161 | (2,161) | - |
| Net assets – end of year | \$2,141 | \$41,360 | \$43,501 |

| | 2019 | | |
|---------------------------------------|---------------------|--|-----------------|
| | Unrestricted | Internally restricted (note 14) | Total |
| Net assets – beginning of year | \$6,563 | \$41,104 | \$47,667 |
| Net income for the year | (2,283) | - | (2,283) |
| Inter-fund transfer (note 14) | (2,417) | 2,417 | - |
| Net assets – end of year | \$1,863 | \$43,521 | \$45,384 |

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District
Statement of Cash Flows
For the year ended March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

| | 2020 | 2019 |
|---|----------------------|-----------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net (loss) for the year | (\$1,883) | (\$2,283) |
| Items not affecting cash | | |
| (Income) of related parties | (2,952) | (2,227) |
| Amortization of capital assets | 759 | 488 |
| Changes in working capital balances (note 16) | (8,068) | 1,109 |
| | <hr/> (\$12,144) | <hr/> (\$2,913) |
| Financing activities | | |
| Distribution from related parties | \$1,336 | \$2,214 |
| | <hr/> \$1,336 | <hr/> \$2,214 |
| Investing activities | | |
| Net change in long term deposits | (\$166) | (\$5,165) |
| Investment (note 6) | 77 | (422) |
| Additions to capital assets | - | (136) |
| | <hr/> (\$89) | <hr/> (\$5,723) |
| (Decrease) in cash during the year | (\$10,897) | (\$6,422) |
| Cash – beginning of year | <hr/> \$19,531 | <hr/> \$25,953 |
| Cash – end of year | <hr/> \$8,634 | <hr/> \$19,531 |

The accompanying notes are an integral part of these financial statements.

MaRS Discovery District

Notes to Financial Statements

March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

1. Description of organization

MaRS Discovery District (MaRS or the organization) is dedicated to improving Canada's social and economic prosperity from its science, technology and social innovations. MaRS' core programs include business advisory services, education and market intelligence to attract and equip Canadian innovators with the skills, tools and networks they need to thrive and grow in the global knowledge economy. MaRS also works to remove systems barriers by conducting research and working collaboratively with governments and public agencies, innovators, established businesses and community partners to determine how to increase the ease and effectiveness of the adoption of new innovations. MaRS administers partner payment grants on behalf of the Province of Ontario and the Government of Canada by providing flow-through grant funding.

MaRS is an organization without share capital, incorporated on August 27, 2001 under the laws of Canada. In October 2014, MaRS was granted continuance under the Canada Not-for-profit Corporations Act. As a registered charity (87668 2717 RR0001) under the Income Tax Act, the organization is exempt from income taxes.

Related entities – real estate

The MaRS Centre, which is located on the south side of College Street between University Avenue and Elizabeth Street in downtown Toronto, is a world-class innovation hub dedicated to catalyzing convergence of the region's science, technology and social innovations to improve economic and societal outcomes for Canadians. The Centre includes properties that are held by three separate related entities.

MaRS Phase 1 Investment Trust, MaRS Phase 1 Inc. and 2550106 Ontario Inc. (note 7)

In December 2016, MaRS became the sole unitholder and sole beneficiary of the MaRS Phase 1 Investment Trust (Phase 1 Trust) and the 100% sole shareholder of both MaRS Phase 1 Inc. (Phase 1 Inc.) and 2550106 Ontario Inc. (2550106 Ontario). The Phase 1 Trust holds the South Tower and Heritage Building located at 101 College Street.

Phase 1 Inc. is an Ontario for-profit company whose sole activity is to act as Trustee for Phase 1 Trust. Phase 1 Inc. in its capacity as trustee executes contracts and other legal and financial instruments for Phase 1 Trust, but does not record any financial activity of its own.

2550106 Ontario is an Ontario for-profit company whose sole activity is to hold the legal and registered title to the Phase 1 lands as bare trustee for MaRS but does not record any financial activity of its own.

MaRS Phase 2 Investment Trust and MaRS Phase 2 Inc. (note 7)

MaRS is an 80% unitholder and beneficiary of the MaRS Phase 2 Investment Trust (Phase 2 Trust) and the 80% shareholder of MaRS Phase 2 Inc. (Phase 2 Inc.). The University of Toronto holds a 20% interest in Phase 2 Trust and Phase 2 Inc. The Phase 2 Trust holds the West Tower, located at 661 University Avenue.

Phase 2 Inc. is an Ontario for-profit company whose sole activity is to act as Trustee for Phase 2 Trust. Phase 2 Inc. in its capacity as trustee executes contracts and other legal and financial instruments for Phase 2 Trust, but does not record any financial activity of its own.

MaRS Development Trust

The MaRS Development Trust holds the Toronto Medical Discovery Tower (also known as the Princess Margaret Cancer Research Tower) facility, situated at the corner of College and Elizabeth Streets.

In 2002, MaRS was appointed administrator of the MaRS Development Trust (the Trust). The Trust's purpose was to issue \$100,000 in bonds to finance the property development of the Toronto Medical Discovery Tower facility (the project), for the University Health Network (UHN), to operate the project and act as landlord under the UHN lease agreement. Under the UHN lease agreement, the project has been leased in its entirety to UHN pursuant to a 30-year lease dated December 12, 2002. The Trust receives finance income that is recognized over the term of the lease in a manner that produces a constant rate of return on the investment in the lease. As beneficiary of the Trust, MaRS will assume the ownership of the project upon full repayment of the bonds in 2035.

MaRS Discovery District

Notes to Financial Statements

March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

MaRS Discovery Enterprises Inc. (note 8)

MaRS holds a 100% investment in MaRS Discovery Enterprises Inc. (MDEI), an Ontario for-profit company. MDEI is an innovation hubs management services company that provides property management, project development and related services to Phase 1 Trust, Phase 2 Trust, and MaRS. MDEI holds a 10.5% investment in Cognicity Inc (note 6).

Related entities – investment and other

MaRS Investment Accelerator Fund Inc. (note 9)

MaRS controls MaRS Investment Accelerator Fund Inc. (IAF). IAF is an Ontario not-for-profit organization that administers the Investment Accelerator Fund Program on behalf of the Province of Ontario.

MaRS Discovery Services Inc.

MaRS controls MaRS Discovery Services Inc. (MDSI), an Ontario not-for-profit organization. MDSI holds a 21% investment in JOLT Fund L.P.; 100% of MaRS 101 Ventures Inc.; and, 100% of MaRS Catalyst Fund General Partner Inc.

JOLT Fund L.P. is a limited partnership of private investors that has made investments in promising start-up companies developing products or services in mobile and digital technology. MaRS 101 Ventures Inc. is an Ontario for-profit company that acts as the general partner to JOLT Fund L.P.

MaRS Catalyst Fund General Partner Inc. is an Ontario for-profit company that acts as the general partner to the MaRS Catalyst Fund General Partner L.P. The MaRS Catalyst Fund General Partner L.P. acts as the general partner to the MaRS Catalyst Fund L.P. The Catalyst Fund L.P. makes capital investments, directly or indirectly, in for-profit businesses meeting the B-Corp criteria, which include standards of verified social and environmental performance, public transparency, legal accountability and aspiring to use the power of markets to solve social and environmental problems. MaRS has a 13.49% financial interest in the Catalyst Fund (note 6).

MaRS 101 Investments Inc.

MaRS holds 100% of MaRS 101 Investments Inc., an Ontario for-profit company that owns 10% of StandUp Distribution LP. StandUp Distribution LP. owns 1.16% of Capital in StandUp Ventures LP (Fund) which invests in high growth technology ventures lead by women entrepreneurs.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

The significant accounting policies are as follows:

Revenue recognition

Grants and donations

The organization follows the deferral method of accounting for contributions, which include grants and donations. Under the deferral method, unrestricted contributions are recognized as revenue when received. Restricted contributions, and interest earned on the funds, are deferred and recognized as revenue when the related expenses are incurred. Capital grants are deferred and amortized on a basis corresponding with the amortization rate for the related capital asset.

The organization has not recognized contributions of materials or services in the statement of operations.

Sponsorship and partnership

Sponsorship and partnership revenue is recognized over the period of the sponsorship, which may be for a period of time or a specific event. Sponsorship and partnership revenue received in advance of being earned is recorded as deferred revenue.

MaRS Discovery District

Notes to Financial Statements

March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

Professional and events fees

Professional and events fees are recognized when the service has been provided. Deposits received for events are recorded as deferred revenue.

Other income

Other income includes distributions received from investments as well as unrestricted interest income which is recognized as revenue when earned.

Capital assets

Capital assets are recorded at cost, net of accumulated amortization and any impairments. An impairment loss equal to the excess of the carrying value over any residual value is recognized for capital assets when the asset no longer has any long-term service potential to the organization.

Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|------------------------|------------|
| Leasehold improvements | 8 years |
| Furniture and fixtures | 5-10 years |
| Equipment | 2-10 years |
| Software | 3-5 years |

Investments

For controlled, profit-oriented subsidiaries, such as Phase 1 Trust, Phase 2 Trust, and MDEI MaRS accounts for them using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include MaRS' pro rata share of the earnings (loss) of the subsidiary, capital transactions and profit distribution (note 7 and note 8).

For controlled, not-for-profit organizations, such as MaRS Investment Accelerator Fund Inc., MaRS has disclosed their financial information in note 9. For MDSI and MaRS 101 Investments Inc., the financial information has not been disclosed as it is not material to the MaRS financial statements.

Other investments are recorded at cost.

Financial instruments

MaRS initially records its financial assets and financial liabilities at fair value. MaRS subsequently measures all of its financial assets and financial liabilities at amortized cost. Financial assets and liabilities include cash, restricted cash, receivables, accounts payable and accrued liabilities. Financial assets are tested for impairment at the end of each reporting period where there are indicators that the assets may be impaired. Any impairment loss is recognized in the statement of operations. Transaction costs are capitalized and amortized on a straight-line basis over the useful life of the related financial instrument.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in determining allowance for doubtful accounts, useful life and recoverability of capital assets, and recoverability of investments and investments in related parties.

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

3. Cash and investments

Cash represents cash in bank operating and savings accounts without restrictions.

Cash and investments classified as long-term represent cash and short-term investments that are equal to the total of long-term restricted contributions (note 13) and the portion of internally restricted net assets associated with future capital and other special projects (note 14).

4. Receivables and prepayments

| | 2020 | 2019 |
|--|----------------|----------------|
| Receivables net of allowance for doubtful accounts of \$254 (2019 - \$183) | \$3,257 | \$2,319 |
| Prepaid expenses | 400 | 607 |
| | <hr/> | <hr/> |
| | \$3,657 | \$2,926 |

5. Related party transactions and balances

During the course of the year, MaRS entered into certain transactions with related parties. These transactions are in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

The organization provided services to Phase 1 Trust in the amount of \$96 (2019 – \$227) for information technology support, accounting, human resources and project management. MaRS has agreements with Phase 1 Trust for the lease of collaboration (event) rooms and office space. The organization paid rent to Phase 1 Trust in the amount of \$2,424 (2019 – \$2,599) during the year.

The organization provided services to Phase 2 Trust in the amount of \$387 (2019 - \$328) for information technology support, accounting, and human resources.

MDEI provides facility and event management services to the organization. During the year ended March 31, 2020, MDEI charged \$119 (2019 - nil) for those services to the organization.

The organization provided services to IAF in the amount of \$188 (2019 - \$189). The services provided included information technology support, accounting, human resources and marketing.

MaRS also provided management services to the Catalyst Fund in the amount of \$42 (2019 – \$58).

During the year, the loan of \$234 (2019 - \$234) due from MDSI that bore interest at 2% per annum was repaid.

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

The following amounts were due from (to) related parties at the end of the year.

| | 2020 | 2019 |
|--|--------------|--------------|
| Current (non-interest bearing) | | |
| Due (to) from Phase 1 Trust | (\$308) | \$206 |
| Due from Phase 2 Trust | 194 | 165 |
| Due (to) MaRS Discovery Enterprises Inc. | (119) | - |
| Due from IAF | 11 | 126 |
| Due from MaRS 101 Ventures Inc | 17 | - |
| Due from the Catalyst Fund | 568 | 318 |
| Due from MaRS Discovery Services Inc. | 8 | - |
| Due from MaRS Development Trust | 5 | - |
| Due from StandUp General Partner | - | 42 |
| | \$376 | \$857 |
| Non-current | | |
| Loan due from MDSI | \$ - | \$234 |

6. Investments

Cogniciti Inc.

MaRS holds directly a 1.8% interest and indirectly, through MDEI, a 10.5% interest in Cogniciti Inc. Cogniciti Inc. was formed in 2009 through a partnership between Baycrest Centre for Geriatric Care (Baycrest), one of the world's leading cognitive science institutes, and MaRS. Since 2013 Baycrest has continued to fund Cogniciti, resulting in a dilution of MaRS' interests. Baycrest currently holds an 87.7% interest in Cogniciti. The investment was written down in fiscal 2020, and carried at a cost of nil (2019 - carried at cost of \$90).

Triphase Accelerator Limited Partnership

MaRS holds a 4% interest (carried at cost of \$500) in Triphase Accelerator Limited Partnership (Triphase). Triphase is a biopharmaceutical company focused on accelerating oncology products from the pre-investigational new drug state to proof of concept in less time and with less capital than traditional pharmaceutical and biotechnology approaches. MaRS is entitled to receive distributions at an annual rate of 8% when declared by the General Partner of Triphase. No distribution was paid to MaRS during the year (2018 – \$403).

The Catalyst Fund L.P. (Fund)

On December 19, 2018 MaRS subscribed for 780 Series C Units, a 13.49% interest, in the Fund for an aggregate subscription price of \$780. As of March 31, 2020, MaRS has contributed \$594 (2019 - \$422) towards its investment in the Fund.

7. Investment in related parties

MaRS Phase 1 Investment Trust and Phase 2 Investment Trust (Trusts)

The organization accounts for its interests in both real estate Trusts using the equity method. The Trusts have December fiscal year ends. MaRS records the income (loss) from each trust with a three-month lag and provides disclosure of key financial information for the period from the Trusts year end to March 31.

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

A continuity of the investment in the Trusts is as follows:

| | Phase 1 | Phase 2 | Total |
|--------------------------------|----------------|-----------------|-----------------|
| Balance March 31, 2018 | \$2,453 | \$37,183 | \$39,636 |
| Net income | 4,761 | (2,534) | 2,227 |
| Distributions | (4,458) | - | (4,458) |
| Balance March 31, 2019 | 2,756 | 34,649 | 37,405 |
| Net income | 4,827 | (1,875) | 2,952 |
| Net assets transferred | 159 | - | 159 |
| Distributions | (4,354) | - | (4,354) |
| Balance, March 31, 2020 | \$3,388 | \$32,774 | \$36,162 |

On January 1, 2020, MaRS transferred the Collaboration Centre business along with the related assets and liabilities to the Phase 1 Trust. The value of the equipment transferred, net of accumulated amortization was \$159.

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for Phase 1 and Phase 2 Trust's as at and for the fiscal years ending December 31 are as follows:

| | Dec 31, 2019 | Dec 31, 2018 |
|-------------------------------------|--------------|--------------|
| Assets | \$458,150 | \$472,178 |
| Liabilities | \$369,993 | \$379,584 |
| Unitholder's equity | \$88,157 | \$92,594 |
| Revenue | \$63,568 | \$61,268 |
| Expenses | \$63,388 | \$62,480 |
| Cash flow from operating activities | \$8,004 | \$4,765 |
| Cash flow from financing activities | (\$9,918) | (\$9,043) |
| Cash flow from investing activities | (\$487) | \$4,338 |

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows (at 100%) for Phase 1 and Phase 2 Trusts' as at and for the quarters ending March 31 are as follows:

| | Mar 31, 2020 | Mar 31, 2019 |
|-------------------------------------|--------------|--------------|
| Assets | \$456,185 | \$464,129 |
| Liabilities | \$368,749 | \$372,760 |
| Unitholder's equity | \$87,436 | \$91,369 |
| Revenue | \$15,936 | \$15,673 |
| Expenses | \$15,994 | \$15,601 |
| Cash flow from operating activities | \$2,884 | \$1,557 |
| Cash flow from financing activities | (\$2,113) | (\$3,429) |
| Cash flow from investing activities | (\$1,984) | \$2,697 |

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

8. MaRS Discovery Enterprises Inc.

MaRS Discovery Enterprises Inc. (MDEI) is an Ontario for-profit company with a December fiscal year end. MDEI is an innovation hubs management services company that provides property management, project development and related services to Trusts and MaRS.

The assets, liabilities, unitholder's equity, revenues, expenses and cash flows for the year ended December 31 and quarter ended March 31 for MDEI are as follows:

| | Mar 31, 2020 | Dec 31, 2019 |
|-------------------------------------|---------------------|---------------------|
| Assets | \$324 | \$22 |
| Liabilities | \$246 | - |
| Net assets | \$78 | \$22 |
| Revenue | \$1,141 | - |
| Expenses | \$1,084 | \$321 |
| Cash flow from operating activities | \$31 | - |
| Cash flow from financing activities | - | - |
| Cash flow from investing activities | - | - |

9. MaRS Investment Accelerator Fund Inc.

MaRS Investment Accelerator Fund Inc. (IAF) is a Province of Ontario funded seed fund that assists emerging Ontario technology companies to bring their products and services to market. IAF administers the investment of up to \$750 in early stage, privately-held companies, with no significant revenue or institutional investment, that have the potential to be global leaders in their field and provide sustainable economic benefits to Ontario. IAF also provides a comprehensive platform of resources, people, connections and funding that entrepreneurs and innovators can access to launch their new ventures.

IAF makes investments in the form of equity instruments and convertible secured debentures that have maturity dates of 12 to 36 months from date of issuance. In the event of significant financing, acquisition or, at IAF's option, the convertible debenture may convert into equity instruments. The conversion terms may include a share price discount.

The terms of funding permit the Province of Ontario, at its sole discretion, to request the return or transfer of any funds or investments held by IAF.

The assets and liabilities as at March 31 and the revenues, expenses and cash flows for the years ended March 31 for MaRS IAF are as follows:

| | 2020 | 2019 |
|-------------------------------------|-------------|-------------|
| Assets | \$82,788 | \$83,249 |
| Liabilities | \$82,788 | \$83,249 |
| Operating revenue | \$2,404 | \$2,462 |
| Operating expenses | \$2,404 | \$2,462 |
| Cash flow from operating activities | (\$2,649) | (\$2,464) |
| Cash flow from financing activities | - | - |
| Cash flow from investing activities | (\$3,328) | \$11,003 |

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

10. Capital assets

| | 2020 | | |
|------------------------|----------------|-------------------------------------|----------------|
| | Cost | Accumulated Amortization | Net |
| Furniture and fixtures | \$1,837 | \$1,787 | \$50 |
| Software | 1,200 | 1,138 | 62 |
| Leasehold improvements | 153 | 67 | 86 |
| | \$3,190 | \$2,992 | \$198 |
| | 2019 | | |
| | Cost | Accumulated Amortization | Net |
| Furniture and fixtures | \$1,892 | \$1,788 | \$104 |
| Equipment | 834 | 764 | 70 |
| Software | 2,549 | 1,829 | 720 |
| Leasehold improvements | 294 | 72 | 222 |
| | \$5,569 | \$4,453 | \$1,116 |

11. Line of credit

MaRS has a credit facility that includes a \$5,000 revolving demand facility and a \$2,000 revolving lease line of credit. No amounts were drawn on either at March 31, 2020 or 2019. The credit facility is secured by a general security agreement and a guarantee by Phase 1 Trust, supported by a second mortgage in the amount of \$10,000 on the Phase 1 land and building.

12. Restricted contributions

Restricted contributions are funds received in support of specified programs, projects or activities agreed upon by MaRS and various funders. MaRS receives restricted grants from the Province of Ontario and the Government of Canada, and restricted donations and other grants from philanthropic donors and other funders. MaRS also administers partner payment programs on behalf of the Province of Ontario and the Government of Canada. These programs provide flow-through funding to the recipients.

| | Province of Ontario | Government of Canada | Other funders | Partner payments | Total |
|-----------------------------------|--------------------------------|---------------------------------|--------------------------|-----------------------------|--------------|
| Balance, March 31, 2018 | \$5,908 | \$235 | \$3,786 | \$10,934 | \$20,863 |
| Funds received during the year | 13,980 | 3,686 | 2,862 | 13,083 | 33,611 |
| Recognized as revenue | (16,620) | (3,363) | (3,281) | (14,134) | (37,398) |

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

| | Province of Ontario | Government of Canada | Other funders | Partner payments | Total |
|---|----------------------------|-----------------------------|----------------------|-------------------------|----------------|
| Balance, March 31, 2019 | 3,268 | 558 | 3,367 | 9,883 | 17,076 |
| Funds received during the year Recognized as revenue | 9,243 | 6,385 | 3,672 | 2,523 | 21,823 |
| | (11,543) | (6,051) | (4,717) | (9,214) | (31,525) |
| Balance, March 31, 2020 | \$968 | \$892 | \$2,322 | \$3,192 | \$7,374 |

The Province of Ontario, through the Ministry of Economic Development, Job Creation and Trade, provides an annual operating grant to MaRS to develop and deliver programs as part of the Ontario Network of Excellence, a province-wide innovation system that supports the needs of entrepreneurs and emerging technology-based companies. These programs include advisory services, educational programs and the development of stronger talent, customer and capital networks for young Ontario companies. MaRS also develops and supports multi-stakeholder innovation initiatives. The Core Funding Agreement with the Province of Ontario has been in place since April 1, 2010 and has provided a total of \$48,500 over the ten-year period ended March 31, 2020. MaRS has received a funding agreement extension to March 31, 2021 for a further \$3,500.

The Province of Ontario funded programs also include the Business Acceleration Program, Data Catalyst and Ontario Scale-Up Vouchers Program.

The Government of Canada, through the Federal Economic Development Agency for Southern Ontario, provides funding to MaRS that supports the Regional Economic Growth Through Innovation Program. The program aims to advance innovation in strategic sectors of the economy, strengthen SMEs innovation capacity, and foster increased collaboration to support the development of early stage business growth. The funding agreement with the Government of Canada has been in place since March 20, 2019 and will contribute a maximum of \$17,503 for costs incurred by the organization over a five-year period ended December 31, 2023.

The programs supported by other funders include the MaRS Centre for Impact Investing and the MaRS Solutions Lab (note 13).

The partner payment programs include the Ontario Regional Innovations Centres (managed by the Business Acceleration Programs), and Ontario Voucher and Growth Coach funding (managed by Ontario Scale-Up Vouchers Program).

13. Long-term restricted contributions

The organization has received long-term restricted contributions to support the MaRS Solutions Lab, a program dedicated to using new approaches to solve elusive societal problems. The agreement with the funders provides that both the contribution and the income derived from the contribution's investment are to be used to support the program over time. During the year the long-term restricted contribution increased by \$166 representing investment income of \$181 in excess of funds used by the program of \$15 (2019 – investment income of \$165).

MaRS Discovery District
Notes to Financial Statements
March 31, 2020

(in thousands of Canadian dollars, unless otherwise stated)

14. Internally restricted net assets

Internally restricted net assets represent investment in related parties, capital assets internally funded and amounts set aside for future capital and other special projects.

In fiscal 2020, \$2,161 of internally restricted funds were transferred to unrestricted net assets (2019 - \$2,417 transferred to internally restricted).

15. Contingencies

As part of the financing arrangement for the West Tower, MaRS has provided the Province of Ontario a pledge of its ownership of the units of Phase 2 Trust and an undertaking to deliver a charge on its beneficial interest in the MaRS Development Tower.

16. Changes in working capital balances

| | 2020 | 2019 |
|--|------------------|----------------|
| Receivables and prepayments | (\$731) | \$33 |
| Government receivables | 786 | 828 |
| Due from/to related parties | 3,574 | 2,659 |
| Accounts payable and accrued liabilities | (1,198) | 1,128 |
| Deferred revenue | (963) | 83 |
| Restricted contributions | (9,536) | (3,622) |
| | (\$8,068) | \$1,109 |

17. Risk management

The organization's activities expose it to a range of financial risks.

Credit risk

Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The organization minimizes its risk on cash and restricted cash by depositing the funds with a major Canadian commercial bank. The organization is exposed to credit risk in connection with accounts receivable from fee paying clients. This is minimized through continuous evaluation and monitoring of outstanding receivables and recording of an allowance for uncollectible accounts. Allowances for doubtful accounts are estimated based on past experience, specific risks associated with the client and other relevant information.

Liquidity risk

Liquidity risk is the risk the organization will not be able to meet its financial obligations as they come due. The organization derives a significant portion of its revenue from the Province of Ontario and Government of Canada, and other funders under agreements that cover only one to five years (see note 12). To manage liquidity risk, the organization actively monitors its operating requirements and works to increase the funding received from other services. The organization also has undrawn credit facilities available.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or other prices, will effect the organization's income or the value of its financial instruments. The organization does not have any significant exposure to foreign exchange, interest rate or other pricing risk.

18. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.