Consolidated Financial Statements of

CENTREVENTURE DEVELOPMENT CORPORATION

Year ended December 31, 2015

CENTREVENTURE DEVELOPMENT CORPORATION
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Year ended December 31, 2015

MANAGEMENT REPORT

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements are the responsibility of the management of CentreVenture Development Corporation and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available to March 10, 2016.

Management maintains internal controls designed to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the external audit is to express an independent opinion on whether the consolidated financial statements of CentreVenture Development Corporation are fairly represented in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

CentreVenture Development Corporation

Angela Mathieson, President & CEO

March 10, 2016

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INDEPENDENT AUDITORS' REPORT

To the Members of CentreVenture Development Corporation

We have audited the accompanying consolidated financial statements of CentreVenture Development Corporation which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of changes in net assets, operations and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CentreVenture Development Corporation as at December 31, 2015, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards for not-for-profit organizations.

Comparative Information

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2014 has been restated.

The consolidated financial statements of CentreVenture Development Corporation as at and for the year ended December 31, 2014, excluding the adjustments described in Note 3 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 23, 2015.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2015, we audited the adjustments described in Note 3 to the consolidated financial statements that were applied to restate the comparative information presented as at and for the year ended December 31, 2014. In our opinion, the adjustments described in Note 3 are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2014, other than with respect to the adjustments described in Note 3 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Professional Accountants

March 10, 2016

Winnipeg, Canada

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

		2015		2014 (as restated, note 3)

Assets

		2015		2014
Current assets:				
Restricted cash (note 4)	$	1,513,314	$	3,568,797
Accounts receivable (note 5)		1,124,265		1,042,490
Prepaid expenses		4,011		33,777
Property held for resale (note 6)		796,770		796,770
Current portion of mortgages receivable (note 7)		862,610		985,298
Current portion of loans receivable (note 8)		4,447,221		3,479,283
Current portion of SHED project receivable (note 9)		802,621		415,765
		9,550,812		10,322,180
Mortgages receivable (note 7)		4,866,511		1,896,647
Loans receivable (note 8)		1,860,235		3,294,773
SHED project receivable (note 9)		5,535,879		4,332,774
Investment in hotel properties (note 10)		6,557,519		11,600,951
Capital assets (note 11)		5,151,780		8,382,544
	$	33,522,736	$	39,829,869

Liabilities, Deferred Contributions and Net Assets

		2015		2014
Current liabilities:				
Bank indebtedness (note 12)	$	9,579,210	$	12,893,912
Accounts payable and accrued liabilities		437,586		519,551
Payable to STR Properties Inc. (note 10)		3,932,935		–
Current portion of long-term debt (note 13)		587,325		2,460,129
		14,537,056		15,873,592
Long-term debt (note 13)		9,208,410		9,788,745
Forgivable loans (note 14)		3,771,039		5,252,753
Deferred contributions (note 15):				
Expenses of future periods		720,348		828,668
Capital assets		534,512		391,992
		1,254,860		1,220,660
Net assets:				
Invested in capital assets (note 17)		846,229		842,779
General operations		(200,398)		(20,189)
Urban Development Bank		4,105,540		6,871,529
		4,751,371		7,694,119
Commitments (note 16)				
	$	33,522,736	$	39,829,869

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	General	Urban Development Bank	2015 Total	2014 Total
				(as restated, (note 3)
Revenue:				
Grants:				
City of Winnipeg:				
Operational grant	$ 100,000	$ –	$ 100,000	$ 300,000
Downtown residential development grant	–	13,284	13,284	12,978
Homelessness Partnering Project	–	116,671	116,671	438,384
SHED project	–	980,638	980,638	829,164
Province of Manitoba:				
Winnipeg regeneration strategy grant	–	238,000	238,000	207,551
SHED project	–	980,638	980,638	829,164
Urban development initiatives grant (note 10)	–	2,590,200	2,590,200	–
Designated grants	–	128,320	128,320	244,490
Amortization of deferred contributions (note 15)	–	301,694	301,694	310,027
Interest	486,461	–	486,461	357,787
Commissions and development fees (note 10)	160,459	430	160,889	309,122
Rental	40,500	590,210	630,710	652,117
Loss from investment in hotel properties (note 10)	–	(5,043,432)	(5,043,432)	(391,155)
Gain on transfer of operations (note 19)	–	172,204	172,204	–
Other	–	4,277	4,277	–
	787,420	1,073,134	1,860,554	4,099,629
Expenditures:				
Administration	24,599	1,932	26,531	51,275
Amortization	12,986	472,670	485,656	503,076
Bank charges and interest	1,802	210,508	212,310	252,145
Interest on long-term debt	–	404,952	404,952	414,519
Cost of properties	–	88,870	88,870	80,364
SHED project expenditures	–	1,624,091	1,624,091	1,331,466
Grants paid out-designated revenues	–	148,320	148,320	244,490
Wages and benefits	732,744	–	732,744	841,450
Insurance	18,382	19,758	38,140	36,243
Office	126,863	–	126,863	123,587
Professional fees:				
IT and other	20,048	–	20,048	13,008
Accounting, legal and transaction costs	35,754	81,512	117,266	116,954
Marketing	7,437	–	7,437	30,143
Project development	–	291,495	291,495	232,494
Rental properties	–	468,579	468,579	905,394
Community investment	–	10,000	10,000	10,000
	980,615	3,822,687	4,803,302	5,186,608
Deficiency of revenue over expenditures for the year	$ (193,195)	$ (2,749,553)	$ (2,942,748)	$ (1,086,979)
Allocated to:				
General operations	(180,209)	–	(180,209)	(117,189)
Urban Development Bank	–	(2,750,781)	(2,750,781)	(776,741)
Invested in capital assets	(12,986)	1,228	(11,758)	(193,049)
Deficiency of revenue over expenditures for the year	$ (193,195)	$ (2,749,553)	$ (2,942,748)	$ (1,086,979)

See accompanying notes to consolidated financial statements.

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

	Invested in capital assets	General operations	Urban Development Bank	Total
Balance, January 1, 2014	$ 1,002,087	$ 97,000	$ 7,682,011	$ 8,781,098
Deficiency of revenue over expenditures	(193,049)	(117,189)	(776,741)	(1,086,979)
Net change in invested in capital assets (note 17)	33,741	–	(33,741)	–
Balance, December 31, 2014	842,779	(20,189)	6,871,529	7,694,119
Deficiency of revenue over expenditures	(11,758)	(180,209)	(2,750,781)	(2,942,748)
Net change in invested in capital assets (note 17)	15,208	–	(15,208)	–
Balance, December 31, 2015	$ 846,229	$ (200,398)	$ 4,105,540	$ 4,751,371

See accompanying notes to consolidated financial statements.

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014 (as restated, note 3)
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenditures for the year	$ (2,942,748)	$ (1,086,979)
Adjustments for:		
Amortization of capital assets	485,655	503,076
Amortization of deferred contributions	(301,694)	(310,027)
Loss from investment in hotel properties	5,043,432	391,155
Gain on transfer of operations	(172,204)	–
	2,112,441	(502,775)
Changes in non-cash working capital balances:		
Restricted cash	2,055,483	1,657,023
Accounts receivable	(81,775)	(380,188)
Prepaid expenses	29,766	4,482
Accounts payable and accrued liabilities	(81,965)	(87,707)
Increase (decrease) in deferred contributions related to expenses of future periods	(108,320)	80,370
	3,925,630	771,205
Capital activities:		
Purchase of capital assets	(2,973)	(6,617)
Proceeds from transfer of operations (note 19)	1,882,786	–
	1,879,813	(6,617)
Investing activities:		
Advances of mortgages receivable	(3,016,572)	(98,644)
Principal repaid on mortgages receivable	169,396	275,768
Advances of loans receivable	(194,608)	(1,309,179)
Principal repaid on loans receivable	661,208	982,163
Advances of SHED project receivable	(1,797,844)	(1,658,328)
Principal repaid on SHED project receivable	207,883	–
	(3,970,537)	(1,808,220)
Financing activities:		
Change in bank indebtedness	(3,314,702)	1,213,707
Payable to STR Properties Inc.	3,932,935	–
Repayment of long-term debt	(2,453,139)	(170,075)
	(1,834,906)	1,043,632
Cash, being cash beginning and end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2015

1. General

CentreVenture Development Corporation (the Corporation) is a non-profit organization incorporated without share capital under the laws of the Province of Manitoba (the Province) on July 9, 1999. The goal of the Corporation is to promote and foster economic, residential and cultural growth and development in the downtown district of The City of Winnipeg (the City). The Corporation is exempt from income tax by virtue of p.149(1)(e) of the *Income Tax Act*.

2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations and include the following significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries Centre Village Housing Inc. and BellMain Residences Inc., which operate under common management. Intra-company and inter-company transactions and balances have been eliminated upon consolidation.

The Corporation has a 89 percent (2014 - 89 percent) investment in STR Properties Inc. and CCC Properties Inc. which are profit-oriented enterprises. The Corporation accounts for its investment in these entities using the modified equity method. Under this method, the accounting principles of the entities are not adjusted to conform with those of the Corporation and inter-company transactions are not eliminated.

(b) Basis of financial presentation:

The Corporation records its financial transactions on the following basis:

General Operations:

General operations includes transactions related to operations and administration of the Corporation.

2. Significant accounting policies (continued):

Urban Development Bank:

The Urban Development Bank (UDB) was initiated in 1999 through a contribution by the City. Funds are intended to enable the Corporation to facilitate economic development initiatives with private and non-profit sectors and provide creative financing options to encourage downtown investment. The assets of the UDB are invested in loans, receivables and property held for development.

The UDB funds, as defined by Board policy, shall not be used to fund the day-to-day operations of the Corporation. The UDB is funded by various levels of government and other funding organizations.

(c) Financial instruments:

Financial instruments are recorded at fair value when acquired or issued. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest method.

(d) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets.

2. Significant accounting policies (continued):

Interest income and rental revenue is recognized on an accrual basis consistent with the terms of the related mortgage and loan agreements and when collection is reasonably assured. Reasonable assurance is based upon the Corporation's past experience with its claims and collections associated with clients and similar transactions.

Sale proceeds on properties and the related costs of properties are recognized when the risks and rewards of ownership are transferred to the purchaser and collection is reasonably assured. Reasonable assurance is based upon the Corporation's past experience with its claims and collections associated with clients and similar transactions. A transaction fee is levied by the Corporation on these sales.

(e) Special projects - restricted funding arrangements:

In addition to regular operating revenues, the Corporation receives grants from time to time for specific programs or initiatives to be administered by the Corporation which are accounted for through the UDB. The following special funding arrangements were ongoing during the year:

Province of Manitoba - North Main Economic Development Program Grant:

The purpose of this grant is to attract business investment to the North Main area of downtown Winnipeg.

City of Winnipeg - Downtown Housing Strategy:

The purpose of this grant is to encourage unique and innovative approaches that support downtown housing developments and result in quality, affordable housing by providing financial assistance to proponents.

City of Winnipeg - Gail Parvin Hammerquist:

The purpose of this grant is to fund innovative measures to attract new investment, occupants and uses for heritage buildings, as well as to conserve the heritage character, architectural elements and detailing of designated buildings.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

City of Winnipeg/Province of Manitoba - Downtown Residential Development Program (DRDG):

The purpose of this program is to promote and support significant improvement projects to revitalize communities and neighborhoods, encourage economic development, enhance social and cultural development, and preserve heritage properties. The Corporation provides administration and other services to the City for this program.

City of Winnipeg/Province of Manitoba - Sports, Hospitality, and Entertainment District (SHED) Project:

The purpose of this program is to make the SHED a key destination downtown, by providing funds to the Corporation to stimulate private and public investment in the District, with the goal of revitalizing Winnipeg's downtown.

City of Winnipeg - Homelessness Partnering Strategy:

The purpose of this grant is to fund renovations at the Bell Hotel whose goal is to provide affordable housing to individuals who have experienced extended periods of homelessness.

(f) Mortgages and loans receivable:

Mortgages and loans are carried at the unpaid principal plus accrued interest, less allowances for doubtful loans. Amounts considered uncollectible are written-off in the year in which the uncollectible amount is determined. Recoveries on mortgages and loans previously written-off are taken into income in the year the amount is received.

(g) Allowance for doubtful loans:

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the Corporation's portfolio. The allowance is evaluated on an ongoing basis and increased as deemed necessary, which is charged against income and is reduced by write-offs.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

(h) Capital assets:

Purchased capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis in accordance with the following estimated useful life of the asset:

Asset	Term
Buildings	25 years
Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	3 to 15 years

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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 management's best estimates as additional information becomes available in the future.

3. Prior period adjustments:

The Corporation made adjustments to the 2014 comparative figures as follows:

(a) The Corporation administers the DRDG program on behalf of the City. As a result, all assets and liabilities of the program should not be included in the Corporation's consolidated statement of financial position. The DRDG program assets and liabilities have been removed from the comparative period consolidated statement of financial position and disclosed in note 21.

(b) The Corporation had entered into an agreement with the City and the Province for the SHED project in prior years. Based on the terms and conditions of the agreement, the City and the Province are providing the Corporation with grant funding for the SHED project. The grant funding and related SHED expenditures should be recognized in the consolidated statement of operations of the Corporation. In addition, interest on the loans payable related to the SHED project should also be recognized in the consolidated statement of operations of the Corporation. The comparative period consolidated statement of operations has been restated to recognize grant funding of $1,658,328, SHED expenditures of $1,331,466 and interest on long-term debt of $326,862.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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3. Prior period adjustments (continued):

(c) Capital assets and deferred contributions related to capital assets were understated by $391,992 at December 31, 2014 due to the annual forgiveness on the forgivable loans recorded directly to the consolidated statement of operations by the Corporation instead of transferring the forgiveness amount to deferred contributions and amortizing over the useful life of the related capital asset. In addition, amortization on the related capital asset was determined based on the period of forgiveness of the forgivable loan instead of its useful life.

The above adjustments did not impact the deficiency of revenue over expenditures as previously reported for the year ended December 31, 2014 or the previously reported net assets at January 1, 2014 or December 31, 2014. The above adjustments resulted in the following changes to the 2014 comparative year financial statements:

	Increase (decrease)
Consolidated statement of financial position:	
Restricted cash	$ (634)
Accounts receivable	(2,032)
DRDG TIF receivable	(2,611,225)
Capital assets	391,992
Long-term debt	(2,613,891)
Deferred contributions related to capital assets	391,992
Consolidated statement of operations:	
Grants:	
City of Winnipeg - SHED project	829,164
Province of Manitoba - SHED project	829,164
Amortization of deferred government assistance	(452,547)
Amortization of deferred contributions related to capital assets	310,027
Amortization	(142,520)
Interest on long-term debt	326,862
SHED project expenditures	1,331,466
Consolidated statement of cash flows:	
Operating activities	1,937
Investing activities	2,406,578
Financing activities	(2,408,515)

4. Restricted cash:

The cash held by the Corporation is restricted for the SHED project and the operation of Centre Village Housing Inc.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

5. Accounts receivable:

	2015	2014
Trade and other receivables	$ 1,016,787	$ 774,376
Goods and services tax receivable	7,478	118,133
Grants receivable	100,000	149,981
	$ 1,124,265	$ 1,042,490

6. Property held for resale:

Under the asset agreement between the Corporation and the City, the Corporation has the option to acquire an interest in surplus City-owned properties and buildings within the downtown area for the consideration of one dollar or a maximum of three years back property taxes. Any properties obtained under either of these options are recorded at the consideration price. The land inventory available under the asset agreement has been substantially depleted.

Property held for resale also includes properties acquired at fair market value from third parties for the purpose of development and/or resale. Material costs associated with the acquisition, development and resale of these properties are capitalized at cost.

7. Mortgages receivable:

	2015	2014
Mortgages receivable	$ 5,728,607	$ 2,898,077
Accrued interest receivable	20,514	3,868
Allowance for doubtful loans	(20,000)	(20,000)
	5,729,121	2,881,945
Current portion of mortgages receivable	862,610	985,298
	$ 4,866,511	$ 1,896,647

Mortgages receivable are on various properties in downtown Winnipeg with terms ranging from demand to maturity of 25 years, monthly instalments applied to interest first, compounded semi-annually not in advance. Mortgages receivable are secured by recourse to the related underlying property, personal and corporate guarantees, and other forms of security except for $2,005,443 (2014 - $2,154,785) for which the City funds principal and interest payments and has provided a guarantee on the related term loan payable that the Corporation had obtained to providing financing for the mortgage (note 13). Interest rates charged for mortgages range from 5.25 percent to 8.0 percent (2014 - 5.25 percent to 8 percent) and are both fixed and variable in reference to the Bank of Canada's prime rate of lending at the time of loan disbursement.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

7. Mortgages receivable (continued):

Mortgage principal receipts are expected as follows:

2016	$ 862,610
2017	3,179,564
2018	170,278
2019	177,889
2020	185,841
Thereafter	1,152,425
	$ 5,728,607

The above schedule lists the expected receipts based on mortgages maturing during the year. Negotiations to renew mortgages may occur as terms expire throughout 2016.

8. Loans receivable:

	2015	2014
Loans receivable	$ 6,391,865	$ 6,851,338
Accrued interest receivable	20,591	27,718
Allowance for doubtful loans	(105,000)	(105,000)
	6,307,456	6,774,056
Current portion of loans receivable	4,447,221	3,479,283
	$ 1,860,235	$ 3,294,773

Loans receivable from various borrowers have a maximum term to maturity of 30 years, payable in monthly interest instalments plus annual principal payment, and are secured by an assignment of Heritage Tax Credits or other forms of security. Interest rates charged, ranging from 5.0 percent to 8.5 percent (2014 - 5.0 percent to 8.5 percent), are both fixed and variable in reference to the Bank of Canada's prime rate of lending at the time of loan disbursement.

Loan principal receipts are expected as follows:

2016	$ 4,447,221
2017	783,705
2018	234,200
2019	234,200
2020	225,000
Thereafter	467,539
	$ 6,391,865

9. SHED project receivable:

The SHED project is funded by the City and Province and with grants provided under the project to make the SHED a key destination downtown with the goal of revitalizing Winnipeg's downtown. Under the terms of the agreement, the Corporation has obtained proceeds from term loans aggregating $8,290,000 (note 13) to utilize for grants in accordance with Phase 1 of the SHED project. As grants are expended by the Corporation a SHED project receivable from the City and Province is recognized for an equivalent amount. The City and Province provide annual funding to the Corporation equivalent to the annual debt servicing cost of the term loans.

SHED project principal receipts are expected as follows:

2016	$ 802,621
2017	449,163
2018	466,873
2019	485,280
2020	503,762
Thereafter	3,630,801
	$ 6,338,500

10. Investment in hotel properties:

The Corporation has an 89 percent interest in STR Properties Inc. which owned the St. Regis property. STR Properties Inc. disposed of the St. Regis property during fiscal 2015 for $4,650,000 with cash consideration of $1,650,000 received and the Corporation provided a mortgage for the remaining $3,000,000 which matures in fiscal 2017 (note 7). The Corporation received a fee of $116,250 from STR Properties Inc. on disposal of the property. In conjunction with the disposition of the property, the Corporation received an urban development initiatives grant of $2,590,200 from the Province of Manitoba. The Corporation will receive a further $287,800 from the Province of Manitoba upon acquisition of the remaining 11 percent interest in STR Properties Inc. The Corporation acquired the remaining 11 percent interest on January 1, 2016 for $715,000. Included in loans receivable at December 31, 2015 was $715,000 from the seller which will be applied by the Corporation as consideration for the acquisition.

10. Investment in hotel properties (continued):

The Corporation has an 89 percent interest in CCC Properties Inc. which included interest in the land and building comprising the Carlton Inn. The Carlton Inn has been subsequently demolished by CCC Properties Inc. During fiscal 2015, the land held was written down by $2,708,773 to its net realizable value of $4,100,000. The Corporation has included 100 percent of the loss for the year of CCC Properties Inc. in the loss from investment in hotel properties in accordance with the terms and conditions of the shares held by the Corporation. The Corporation acquired the remaining 11 percent interest on January 1, 2016 for $770,000. Included in loans receivable at December 31, 2015 is $770,000 from the seller which will be applied by the Corporation as consideration for the acquisition.

These businesses were acquired as part of the Corporation's mission to revitalize downtown Winnipeg. Summary financial information of the entities is as follows (based on 100 percent interest):

	STR Properties Inc.	CCC Properties Inc.
Current assets	$ 46,690	$ 270,185
Long-term assets	3,918,951	4,100,000
Total assets	$ 3,965,641	$ 4,370,185
Current liabilities	$ 4,242	$ 568,444
Equity	3,961,399	3,801,741
Total equity and liabilities	$ 3,965,641	$ 4,370,185

	STR Properties Inc.	CCC Properties Inc.
Revenue	$ 3,129	$ 51
Expenses	(34,442)	(112,816)
Loss on disposal/write-down of property	(2,418,636)	(2,708,773)
Loss for the year	$ (2,449,949)	$ (2,821,538)

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

11. Capital assets:

						2015		2014
		Cost		Accumulated amortization		Net book value		Net book value
								(as restated, note 3)
Buildings	$	6,140,734	$	1,224,760	$	4,915,974	$	8,097,333
Computer equipment		127,192		123,843		3,349		5,000
Furniture and fixtures		67,100		55,563		11,537		32,977
Leasehold improvements		575,220		354,300		220,920		247,234
	$	6,910,246	$	1,758,466	$	5,151,780	$	8,382,544

12. Bank indebtedness:

The Corporation has an approved operating line of credit with the Royal Bank of Canada to a maximum amount of $10,400,000. The line of credit bears interest at Royal Bank prime rate minus 1.00 percent (1.70 percent as at December 31, 2015) per annum and is secured by an unconditional and irrevocable guarantee signed by the City in the amount of $10,400,000 and a general security agreement on all personal property of the Corporation. As at December 31, 2015, the line of credit had a balance owing of $2,979,210 (2014 - $6,280,744).

The Corporation has an approved line of credit with the Royal Bank of Canada in the amount of $6,600,000 (2014 - $6,600,000) which was fully drawn at December 31, 2015 and 2014. The line of credit bears interest at Royal Bank prime minus 1.00 percent (1.70 percent as at December 31, 2015) and is guaranteed by the City.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

13. Long-term debt:

	2015	2014 (as restated, note 3)
Mortgage payable at the rate of 4.59%	$ –	$ 1,895,021
Term loan, interest at 4.47%, due October 2025, blended yearly payments of $241,597, secured by a general security agreement constituting a first ranking security interest in all personal property, and an unconditional and irrevocable guarantee signed by the City in the amount of $2,600,000	1,914,511	2,063,853
Term loan, interest at 3.98%, due October 2029, blended annual equal payments of $349,338 commencing in 2015, secured by a guarantee signed by the City in the amount of $3,890,000	3,698,743	3,890,000
Term loan, interest at 3.91%, due October 2029, blended annual payments of $393,254 commencing in 2015, secured by a guarantee signed by the City in the amount of $4,400,000	4,182,481	4,400,000
	9,795,735	12,248,874
Current portion of long-term debt	587,325	2,460,129
	$ 9,208,410	$ 9,788,745

Principal repayments for the next five years are as follows:

2016	$ 587,325
2017	612,155
2018	637,151
2019	663,169
2020	689,603
Thereafter	6,606,332
	$ 9,795,735

Proceeds from the 4.47 percent term loan were utilized by the Corporation to provide a 15 year mortgage receivable to Youth Centre of Excellence project at 333 King Street (note 7). The Corporation receives annual principal and interest payments for the Youth Centre of Excellence mortgage receivable from the City.

The 3.98 percent and 3.91 percent term loans were incurred to finance phase 1 of the SHED project under the Strategic Downtown Investments Funding Agreement. In accordance with the SHED agreement, the City and the Province provide annual funding to the Corporation equivalent to the annual debt servicing costs of these loans (note 9).

14. Forgivable loans:

The details of forgivable loans are as follows:

	2015	2014
Bell Hotel:		
Province of Manitoba 15 year term loan, with maturity date set at August 1, 2026, payments are not required as long as the property operates as an affordable housing complex	$ 1,790,555	$ 1,950,555
Government of Canada 15 year term loan, with maturity date set at August 1, 2026, payments are not required as long as the property offers services for the homeless approved by the Government of Canada	1,980,484	2,173,031
Centre Village Housing Inc.:		
Province of Manitoba 15 year term loan, with maturity date set at July 1, 2025, payments are not required as long as the property operates as an affordable housing complex	–	1,129,167
	$ 3,771,039	$ 5,252,753

The five year forgiveness schedule for the forgivable loans is as follows:

2016	$ 352,547
2017	352,547
2018	352,547
2019	352,547
2020	352,547
Thereafter	2,008,304
	$ 3,771,039

At December 31, 2015, the Corporation has met all requirements during the year relating to the terms of the forgivable loans.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

15. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions related to expenses of future periods represents externally restricted funding received from various sources for the operation of the project to which the funding relates.

Deferred grant revenue for externally restricted projects during the year is as follows:

	2015	2014
Balance, beginning of year	$ 828,668	$ 745,698
Contributions received	20,000	327,460
Amounts recognized as revenue in the year	(128,320)	(244,490)
Balance, end of year	$ 720,348	$ 828,668

	2015	2014
Gail Parvin Hammerquist 2009	$ 717,748	$ 826,068
North Main Economic Development Program Grant	2,600	2,600
	$ 720,348	$ 828,668

(b) Capital assets:

Deferred contributions related to capital assets represent the unamortized amount of grants and other contributions received for the purchase of capital assets.

	2015	2014 (as restated, note 3)
Balance, beginning of year	$ 391,992	$ 249,472
Contributions transferred from forgivable loans	444,214	452,547
Amount amortized to revenue in the year	(301,694)	(310,027)
Balance, end of year	$ 534,512	$ 391,992

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

16. Commitments:

The Corporation has made commitments for leases until maturity as follows:

2016	$ 26,597
2017	26,597
2018	18,286

17. Invested in capital assets:

Investment in capital assets is calculated as follows:

	2015	2014 (as restated, note 3)
Capital assets	$ 5,151,780	$ 8,382,544
Loans payable	–	(1,895,021)
Forgivable loans	(3,771,039)	(5,252,753)
Deferred contributions	(534,512)	(391,992)
	$ 846,229	$ 842,778

Change in net assets invested in capital assets is calculated as follows:

	2015	2014 (as restated, note 3)
Deficiency of revenue over expenditures:		
Amortization of deferred contributions	$ 301,694	$ 310,027
Amortization of capital assets	(485,656)	(503,076)
Gain on transfer of operations	172,204	–
	$ (11,758)	$ (193,049)

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

17. Invested in capital assets (continued):

	2015	2014
Net changes in investment in capital assets:		
Purchase of capital assets	$ 2,973	$ 6,618
Repayment of long-term debt	1,895,021	27,123
Proceeds on transfer of operations (note 19)	(1,882,786)	–
	$ 15,208	$ 33,741

18. Related party transactions and balances:

The following table summarizes the Corporation's related party transactions and balances with The City of Winnipeg for the year:

	2015	2014
Consolidated statement of operations		
Revenue:		
Operational grant	$ 100,000	$ 300,000
Downtown residential development grant	13,284	10,048
Homelessness Partnering Project grant	116,671	431,832
SHED project grant	980,638	829,164
Expenditures:		
Property taxes	59,075	54,227
Consolidated statement of financial position		
Accounts receivable	287,773	337,754
Mortgages receivable	2,005,443	2,154,785
SHED project receivable	3,354,907	2,374,270
Accounts payable and accrued liabilities	273,716	273,716

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

19. Transfer of operations:

Effective December 1, 2015, the Corporation transferred the operations of Centre Village Housing Inc. to The Manitoba Housing and Renewal Corporation (MHRC) including the capital assets for cash proceeds of $1,857,572 and elimination of amounts payable of $25,214. The cash proceeds were utilized by the Corporation to repay the mortgage payable (note 13). In addition, MHRC forgave the remaining forgivable loan of $1,037,500 (note 14). The Corporation recorded a gain on the transfer of operations of $172,204.

20. Financial instruments risks:

General objectives, policies and processes:

The Board of Directors has overall responsibility for the determination of the Corporation's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Corporation's President and Chief Executive Officer. The Board of Directors receives monthly reports from the Corporation's President and Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Corporation's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk and liquidity risk.

There have been no significant changes from the previous year in the exposure to risk, policies or procedures used to manage financial instruments risks.

Interest rate risk:

The Corporation is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the cash flows related to its mortgages and loans receivable, and long-term debt. The Corporation's objective is to minimize interest rate risk by locking in fixed rates on its mortgages and loans receivable, and its long-term debt.

The Corporation is exposed to interest rate risk through its line of credit, which bears interest at prime minus one percent. These funds are used as interim financing until permanent financing, with a fixed rate, can be put in place.

The Corporation's financial instruments subject to interest rate risk are subject to fixed rates of interest and will not be renewed within the next twelve months, and therefore are not subject to interest rate risk. The line of credit is not subject to interest rate risk as it is as a market rate and the funds are usually used for a period of less than twelve months.

Credit risk:

The Corporation is exposed to credit risk through the possibility of non-collection of its accounts receivable. The majority of the Corporation's receivables are from government entities which minimizes the risk of non-collection. The Corporation also makes sure it meets all the eligibility criteria for the amounts to ensure they will collect the amounts outstanding.

20. Financial instruments risks (continued):

The Corporation is also exposed to credit risk through the possibility of non-collection of its mortgages and loans receivable. The Corporation's loan guidelines set out the minimum requirements for management of credit risk. The Corporation's loan guideline includes policies regarding the approval of lending, eligibility for loans, lending limits, and loan collateral security.

With respect to credit risk, the Board of Directors receives details of new loans and delinquent loans. The Corporation's maximum exposure to the credit risk is limited to the amount presented on the face of the consolidated statement of financial position for accounts receivable, mortgages receivable and loans receivable.

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis. The Corporation ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

21. DRDG Program:

The DRDG Program is funded by the City and Province and provides grants to developers of residential/mixed use projects in the downtown. The grants provided are based upon the annual incremental taxes generated by the development in the first full year following completion. For condominium developments, the developers receive a grant of 10 times the first years' incremental taxes. For rental developments, the developer receives a grant equal to 15 times the first years' incremental taxes. Developers can elect to receive a lump sum payment of the net present value or, receive annual payments. When lump sum payments are elected, the funds are borrowed from a conventional lender and loans are repaid by the annual incremental taxes.

The Corporation administers this program on behalf of the City and Province, which entails the acceptance of applications and monitoring development through to completion. When lump sum grants are payable under the program, the City provides the Corporation with direction to borrow funds and the loans are drawn by the Corporation and guaranteed by the City. The City provides funding for the annual loan repayments to the Corporation from the annual incremental taxes.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

21. DRDG Program (continued):

As the Corporation only administers this program on behalf of the City and Province, the related assets and liabilities that are administered by the Corporation have not been reflected in these consolidated financial statements. The assets and liabilities that are administered by the Corporation under this program are as follows:

	2015	2014
Assets:		
Cash	$ 5,882	$ 634
DRDG TIF receivable - the City	2,779,443	2,613,257
	2,785,325	2,613,891
Liabilities:		
Loans payable	$2,785,325	2,613,891

The Corporation receives an annual payment from the City for the loans to cover the annual debt servicing costs. The loans payable are fully guaranteed by the City.

22. Comparative information:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.