Consolidated Financial Statements of

CENTREVENTURE DEVELOPMENT CORPORATION

Year ended December 31, 2016

CENTREVENTURE DEVELOPMENT CORPORATION
Index

Year ended December 31, 2016

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 16, 2017.

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 16, 2017

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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, 2016, the consolidated statements of operations, changes in net assets, 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, 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

March 16, 2017

Winnipeg, Canada

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Restricted cash (note 3)	$ 1,428,193	$ 1,513,314
Accounts receivable (note 4)	548,655	1,124,265
Prepaid expenses	4,011	4,011
Property held for resale (note 5)	–	796,770
Current portion of mortgages receivable (note 6)	4,331,059	862,610
Current portion of loans receivable (note 7)	804,948	4,447,221
Current portion of SHED project receivable (note 8)	746,384	802,621
	7,863,250	9,550,812
Mortgages receivable (note 6)	1,610,436	4,866,511
Loans receivable (note 7)	2,955,976	1,860,235
SHED project receivable (note 8)	5,262,550	5,535,879
Investment in hotel properties (note 9)	7,763,373	6,557,519
Capital assets (note 10)	4,857,052	5,151,780
	$ 30,312,637	$ 33,522,736
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Bank indebtedness (note 11)	$ 3,112,170	$ 9,579,210
Accounts payable and accrued liabilities	420,699	437,586
Payable to CCC Properties Inc. (note 9)	3,774,501	–
Payable to STR Properties Inc. (note 9)	3,932,935	3,932,935
Current portion of long-term debt (note 12)	612,155	587,325
	11,852,460	14,537,056
Long-term debt (note 12)	8,596,725	9,208,410
Forgivable loans (note 13)	3,418,492	3,771,039
Deferred contributions (note 14):		
Expenses of future periods	871,875	720,348
Capital assets	677,032	534,512
	1,548,907	1,254,860
Net assets:		
Invested in capital assets (note 16)	761,528	846,229
General operations	(61,491)	(200,398)
Urban Development Bank	4,196,016	4,105,540
	4,896,053	4,751,371
Commitments (note 15)		
	$ 30,312,637	$ 33,522,736

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

J. Mathieson

Director

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	General	Urban Development Bank	2016 Total	2015 Total
Revenue:				
Grants:				
City of Winnipeg:				
Operational grant	$ 600,000	$ –	$ 600,000	$ 100,000
Downtown residential development grant	–	–	–	13,284
Homelessness Partnering Project	–	30,279	30,279	116,671
SHED project	–	394,077	394,077	980,638
Province of Manitoba:				
Winnipeg regeneration strategy grant	–	–	–	238,000
Downtown Winnipeg ground floor activation strategy grant	–	36,828	36,828	–
SHED project	–	394,077	394,077	980,638
Urban development initiatives grant (note 9)	–	287,800	287,800	2,590,200
Designated grants	–	49,645	49,645	128,320
Amortization of deferred contributions (note 14)	–	210,027	210,027	301,694
Interest	371,671	–	371,671	486,461
Commissions and development fees (note 9)	5,500	–	5,500	160,889
Rental	–	380,465	380,465	630,710
Loss from investment in hotel properties (note 9)	–	(279,785)	(279,785)	(5,043,432)
Gain on transfer of operations (note 18)	–	–	–	172,204
Gain on sale of property held for resale (note 5)	–	202,420	202,420	–
Other	–	30,008	30,008	4,277
	977,171	1,735,841	2,713,012	1,860,554
Expenditures:				
Administration	13,713	–	13,713	26,531
Amortization	10,523	290,153	300,676	485,656
Bank charges and interest	1,201	49,972	51,173	212,310
Interest on long-term debt	–	315,547	315,547	404,952
Cost of properties	–	93,659	93,659	88,870
SHED project expenditures	–	472,607	472,607	1,624,091
Grants paid out-designated revenues	–	49,645	49,645	148,320
Wages and benefits	606,001	–	606,001	732,744
Insurance	22,060	–	22,060	38,140
Office	128,668	–	128,668	126,863
Professional fees:				
Information technology and other	22,404	–	22,404	20,048
Accounting, legal and transaction costs	39,645	78,782	118,427	117,266
Marketing	4,572	4,961	9,533	7,437
Project development	–	60,675	60,675	291,495
Rental properties	–	264,542	264,542	468,579
Community investment	–	–	–	10,000
Bad debt	–	39,000	39,000	–
	848,787	1,719,543	2,568,330	4,803,302
Excess (deficiency) of revenue over expenditures for the year	$ 128,384	$ 16,298	$ 144,682	$ (2,942,748)
Allocated to:				
General operations	138,907	–	138,907	(180,209)
Urban Development Bank	–	96,424	96,424	(2,750,781)
Invested in capital assets	(10,523)	(80,126)	(90,649)	(11,758)
Excess (deficiency) of revenue over expenditures for the year	$ 128,384	$ 16,298	$ 144,682	$ (2,942,748)

See accompanying notes to consolidated financial statements.

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative information for 2015

	Invested in capital assets	General operations	Urban Development Bank	Total
Balance, January 1, 2015	$ 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 16)	15,208	–	(15,208)	–
Balance, December 31, 2015	846,229	(200,398)	4,105,540	$ 4,751,371
Excess (deficiency) of revenue over expenditures	(90,649)	138,907	96,424	144,682
Net change in invested in capital assets (note 16)	5,948	–	(5,948)	–
Balance, December 31, 2016	$ 761,528	$ (61,491)	$ 4,196,016	$ 4,896,053

See accompanying notes to consolidated financial statements.

CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenditures for the year	$ 144,682	$ (2,942,748)
Adjustments for:		
Amortization of capital assets	300,676	485,655
Amortization of deferred contributions	(210,027)	(301,694)
Loss from investment in hotel properties	279,785	5,043,432
Gain on transfer of operations	–	(172,204)
Gain on sale of property held for resale	(202,420)	–
Bad debt	39,000	–
	351,696	2,112,441
Changes in non-cash working capital balances:		
Restricted cash	85,121	2,055,483
Accounts receivable	575,610	(81,775)
Prepaid expenses	–	29,766
Accounts payable and accrued liabilities	(16,887)	(81,965)
Increase (decrease) in deferred contributions related to expenses of future periods	151,527	(108,320)
	1,147,067	3,925,630
Capital activities:		
Purchase of capital assets	(5,948)	(2,973)
Proceed from sale of property held for resale	999,190	–
Proceeds from transfer of operations (note 18)	–	1,882,786
	993,242	1,879,813
Investing activities:		
Advances of mortgages receivable	(752,594)	(3,016,572)
Principal repaid on mortgages receivable	540,220	169,396
Advances of loans receivable	(791,618)	(194,608)
Principal repaid on loans receivable	1,813,511	661,208
Advances of SHED project receivable	–	(1,797,844)
Principal repaid on SHED project receivable	329,566	207,883
	1,139,085	(3,970,537)
Financing activities:		
Change in bank indebtedness	(6,467,040)	(3,314,702)
Payable to STR Properties Inc.	–	3,932,935
Payable to CCC Properties Inc.	3,774,501	–
Repayment of long-term debt	(586,855)	(2,453,139)
	(3,279,394)	(1,834,906)
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, 2016

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 and its wholly-owned subsidiary Centre Village Housing Inc. Intra-company and inter-company transactions and balances have been eliminated upon consolidation.

The Corporation has a 100 percent (2015 - 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.

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 - East Waterfront Neighborhood Development Program (EWND):

The purpose of this program is to undertake initiatives, such as marketing, safety programs, beautification, amenity attraction etc. that to enhance the Exchange Waterfront neighbourhood where clusters of residential development are occurring. The public investment is being made to attract private sector investment and protect existing investments that has been made by individuals and business owners who want to live and work in a vibrant complete community.

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.

2. Significant accounting policies (continued):

(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.

(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. Restricted cash:

The cash held by the Corporation is restricted for the SHED project.

4. Accounts receivable:

	2016	2015
Trade and other receivables	$ 548,655	$ 1,024,265
Grants receivable	–	100,000
	$ 548,655	$ 1,124,265

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

5. 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. During the year ended December 31, 2016, the Corporation sold the property held for resale for $1,000,000 resulting in a gain on sale of $202,420.

6. Mortgages receivable:

	2016	2015
Mortgages receivable	$ 5,938,887	$ 5,728,607
Accrued interest receivable	22,608	20,514
Allowance for doubtful loans	(20,000)	(20,000)
	5,941,495	5,729,121
Current portion of mortgages receivable	4,331,059	862,610
	$ 1,610,436	$ 4,866,511

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 $1,849,424 (2015 - $2,005,443) 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 12). Interest rates charged for mortgages range from 4.0 percent to 8.0 percent (2015 - 5.25 percent to 8.0 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.

6. Mortgages receivable (continued):

Mortgage principal receipts are expected as follows:

2017	$ 4,331,059
2018	241,597
2019	241,597
2020	241,597
2021	241,597
Thereafter	641,440
	$ 5,938,887

The above schedule lists the expected receipts based on mortgages maturing during the year. Negotiations to renew mortgages may occur as terms expire throughout 2017.

7. Loans receivable:

	2016	2015
Loans receivable	$ 3,888,808	$ 6,391,865
Accrued interest receivable	16,116	20,591
Allowance for doubtful loans	(144,000)	(105,000)
	3,760,924	6,307,456
Current portion of loans receivable	804,948	4,447,221
	$ 2,955,976	$ 1,860,235

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 (2015 - 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:

2017	$ 804,948
2018	1,575,323
2019	243,400
2020	766,618
2021	–
Thereafter	498,519
	$ 3,888,808

8. 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 12) 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:

2017	$ 746,384
2018	746,384
2019	746,384
2020	746,384
2021	746,384
Thereafter	2,277,014
	$ 6,008,934

9. Investment in hotel properties:

The Corporation has a 100 percent (2015 - 89 percent interest) in STR Properties Inc. which owned the St. Regis property. The Corporation acquired the remaining 11 percent interest on January 1, 2016 for $715,000 through consideration from a $715,000 loan receivable held by the Corporation with the seller.

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 6). 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 received a further $287,800 during fiscal 2016 from the Province of Manitoba upon acquisition of the remaining 11 percent interest in STR Properties Inc. Offsetting this revenue, the Corporation had a loss from its investment in STR Properties Inc. of $279,785 during the year ended December 31, 2016.

9. Investment in hotel properties (continued):

The Corporation has a 100 percent (2015 - 89 percent interest) in CCC Properties Inc. which included interest in the land and building comprising the Carlton Inn. The Corporation acquired the remaining 11 percent interest on January 1, 2016 for $770,000 through consideration from a $770,000 loan receivable held by the Corporation with the seller.

The Carlton Inn had been previously 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 had 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. During fiscal 2016, CCC Properties Inc. disposed of the land for cash consideration of $4,100,000.

At December 31, 2016, the Corporation has a payable to STR Properties Inc. of $3,932,935 (2015 - $3,932,935) and a payable to CCC Properties Inc. of $3,774,501 (2015 - nil) which are non-interest bearing, unsecured and have no specified terms of repayment.

These businesses were acquired as part of the Corporation's mission to revitalize downtown Winnipeg. Summary financial information of the entities is as follows:

	STR Properties Inc.	CCC Properties Inc.
Current assets	$ 46,690	$ 28,159
Long-term assets	3,918,951	3,773,582
Total assets	$ 3,965,641	$ 3,801,741
Current liabilities	$ 4,242	$ –
Equity	3,961,399	3,801,741
Total equity and liabilities	$ 3,965,641	$ 3,801,741

	STR Properties Inc.	CCC Properties Inc.
Revenue	$ –	$ –
Expenses	–	–
Loss for the year	$ –	$ –

10. Capital assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Buildings	$ 6,140,734	$ 1,488,597	$ 4,652,137	$ 4,915,974
Computer equipment	133,140	128,184	4,956	3,349
Furniture and fixtures	67,100	61,746	5,354	11,537
Leasehold improvements	575,219	380,614	194,605	220,920
	$ 6,916,193	$ 2,059,141	$ 4,857,052	$ 5,151,780

11. 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 (2015 - $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, 2016, the line of credit had a balance owing of $3,112,170 (2015 - $2,979,210).

The Corporation had an approved line of credit with the Royal Bank of Canada in the amount of $6,600,000 (2015 - $6,600,000). During the year ended December 31, 2016, the Corporation repaid the $6,600,000 outstanding under the line of credit and the line of credit was cancelled.

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

12. Long-term debt:

	2016	2015
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	$ 1,758,492	$ 1,914,511
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	3,497,074	3,698,743
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	3,953,314	4,182,481
	9,208,880	9,795,735
Current portion of long-term debt	612,155	587,325
	$ 8,596,725	$ 9,208,410

Principal repayments for the next five years are as follows:

2017	$ 612,155
2018	637,151
2019	663,169
2020	689,603
2021	718,425
Thereafter	5,888,377
	$ 9,208,880

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 6). 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 8).

CENTREVENTURE DEVELOPMENT CORPORATION

13. Forgivable loans:

The details of forgivable loans are as follows:

	2016	2015
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	$ 1,630,555	$ 1,790,555
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	1,787,937	1,980,484
	$ 3,418,492	$ 3,771,039

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

2017	$ 352,547
2018	352,547
2019	352,547
2020	352,547
2021	352,547
Thereafter	1,655,757
	$ 3,418,492

At December 31, 2016, 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, 2016

14. 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:

	2016	2015
Balance, beginning of year	$ 720,348	$ 828,668
Contributions received	238,000	20,000
Amounts recognized as revenue in the year	(86,473)	(128,320)
Balance, end of year	$ 871,875	$ 720,348

	2016	2015
Gail Parvin Hammerquist 2009	$ 668,103	$ 717,748
North Main Economic Development Program Grant	2,600	2,600
Province of Manitoba - Downtown Winnipeg ground floor activation strategy grant	201,172	–
	$ 871,875	$ 720,348

(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.

	2016	2015
Balance, beginning of year	$ 534,512	$ 391,992
Contributions transferred from forgivable loans	352,547	444,214
Amount amortized to revenue in the year	(210,027)	(301,694)
Balance, end of year	$ 677,032	$ 534,512

CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

15. Commitments:

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

2017	$ 26,597
2018	18,286

16. Invested in capital assets:

Investment in capital assets is calculated as follows:

	2016	2015
Capital assets	$ 4,857,052	$ 5,151,780
Forgivable loans	(3,418,492)	(3,771,039)
Deferred contributions	(677,032)	(534,512)
	$ 761,528	$ 846,229

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

	2016	2015
Deficiency of revenue over expenditures:		
Amortization of deferred contributions	$ 210,027	$ 301,694
Amortization of capital assets	(300,676)	(485,656)
Gain on transfer of operations	–	172,204
	$ (90,649)	$ (11,758)

	2016	2015
Net changes in investment in capital assets:		
Purchase of capital assets	$ 5,948	$ 2,973
Repayment of long-term debt	–	1,895,021
Proceeds on transfer of operations (note 19)	–	(1,882,786)
	$ 5,948	$ 15,208

17. 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:

	2016	2015
Consolidated statement of operations		
Revenue:		
Operational grant	$ 600,000	$ 100,000
Downtown residential development grant	–	13,284
Homelessness Partnering Project grant	30,279	116,671
SHED project grant	394,077	980,638
Expenditures:		
Property taxes	66,436	59,075
Consolidated statement of financial position		
Accounts receivable	351,016	640,556
Mortgages receivable	1,849,424	2,005,443
Loan receivable	391,537	391,537
SHED project receivable	3,004,467	3,354,907
Accounts payable and accrued liabilities	287,439	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.

18. Transfer of operations:

Effective December 1, 2015, the Corporation had 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). In addition, MHRC forgave the remaining forgivable loan of $1,037,500. The Corporation recorded a gain on the transfer of operations of $172,204 during the year ended December 31, 2015.

19. 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.

19. 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.

20. Programs under administration:

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.

20. Programs under administration (continued):

Exchange Waterfront Neighborhood Development Program

The Exchange Waterfront Neighbourhood Development Program's (the EWND Program) objective is to support the development of a complete community in the Exchange Waterfront Neighbourhood. The Program is funded by the City and Province through tax increment financing and achieved by borrowing for an additional five years against the incremental taxes that are generated by the condominium projects that receive grants under the DRDG Program. Under the DRDG Program, the developer is entitled to receive a grant equal to the net present value of 10 years of incremental taxes generated by the project and the EWND Program is funded receiving the net present value of an additional 5 years of incremental taxes. The City and Province forgo the incremental taxes for 15 years on the condominium projects to provide the funds required to repay the borrowing for the DRDG and EWND Programs.

The funds are used to undertake initiatives relating to increasing safety, providing transportation options, improving the image and awareness of the neighbourhood and infrastructure improvements to beautify the neighbourhood and make it more pedestrian friendly. The Corporation administers the EWND Program on behalf of the City and the Province, which entails doing the research and making recommendations for initiatives to undertake and then implementing and monitoring the initiatives to completion.

As the Corporation only administers the DRDG and EDWN Programs 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 the DRDG and EDWN Programs are as follows:

	2016	2015
Assets:		
Cash	$ 5,857	$ 5,882
DRDG TIF receivable - the City	5,751,227	2,779,443
	5,757,084	2,785,325
Liabilities:		
Loans payable	$ 5,757,084	$ 2,785,325

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.