Financial Statements of

cSPACE PROJECTS

Year ended December 31, 2017

KPMG

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Canada
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of cSPACE Projects:

We have audited the accompanying financial statements of cSPACE Projects, which comprise the statement of financial position as at December 31, 2017, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of cSPACE Projects as at December 31, 2017, and its results of operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

February 26, 2018
Calgary, Canada

cSPACE PROJECTS

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	$ 1,342,660	$ 2,723,088
Short term investment (note 3)	197,180	–
Accounts receivable (notes 7 and 10)	1,218,116	2,870,826
Goods and services tax receivable	84,448	307,493
Prepaid expenses and deposits	142,780	12,936
	2,985,184	5,914,343
Restricted investment (note 3)	308,000	509,322
Income producing property (note 4)	29,077,186	22,891,962
	$32,370,370	$ 29,315,627
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,883,841	$ 2,400,530
Unearned revenue	7,641	31,508
Security deposits	45,211	33,109
Current portion of long term debt (note 6)	1,552,923	–
	3,489,616	2,465,147
Deferred contributions related to income producing property (note 7)	14,671,025	14,292,886
Long term debt (note 6)	1,947,077	–
	20,017,718	16,758,033
Net assets:		
Unrestricted	$ 12,254,541	$ 12,557,594
Restricted	8,111	–
	12,262,652	12,557,594
Contingency (note 6)		
Subsequent event (note 10)		
Commitments (note 13)		
	$ 32,370,370	$ 29,315,627

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

cSPACE PROJECTS

Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenues:		
Contributions (note 8)	$ 290,500	$ 381,438
Other income	22,500	240
Interest	8,723	73,708
Rental revenue	309,500	6,414
Operating expense recoveries	176,913	–
Depreciation of deferred contributions related to income producing property (note 7)	455,041	–
	1,263,177	461,800
Expenses:		
Depreciation	874,157	–
General and administrative	437,384	515,046
Operating	174,894	94,748
Financing	19,221	52,447
Other	52,463	30,239
	1,558,119	692,480
Gain on disposal of lands (note 5)	–	4,500,000
(Deficiency) excess of revenues over expenses	$ (294,942)	$ 4,269,320

See accompanying notes to financial statements.

cSPACE PROJECTS

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

	Restricted Fund	Unrestricted	Total 2017	Total 2016
Net assets – beginning of year	$ –	$12,557,594	$12,557,594	$ 8,288,274
Deficiency of revenues over expenses	–	(294,942)	(294,942)	4,269,320
Transfer to restricted fund (note 12)	8,111	(8,111)	–	–
Net assets – end of year	$ 8,111	$12,254,541	$12,262,652	$ 12,557,594

See accompanying notes to financial statements.

cSPACE PROJECTS

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Increase (decrease) in cash:		
Operations:		
(Deficiency) excess of revenues over expenses	$ (294,942)	$ 4,269,320
Gain on disposal of lands	–	(4,500,000)
Depreciation of deferred contributions related to income producing property	874,157	–
Depreciation of deferred contributions related to income producing property	(455,041)	–
Changes in non-cash working capital:		
Accounts receivable	1,652,710	359,394
Goods and services tax receivable	223,045	(187,464)
Prepaid expenses and deposits	(129,844)	1,453
Accounts payable and accrued liabilities	(516,689)	(15,564)
Unearned revenue	(23,867)	13,309
Security deposits	12,102	13,375
	1,341,631	(46,177)
Financing:		
Deferred contribution received for income producing property	833,180	3,173,880
Repayment of debt	–	(500,000)
Proceeds on debt	3,500,000	–
Changes in non-cash working capital:		
Accounts receivable	–	1,000,000
	4,333,180	3,673,880
Investing:		
Proceeds on sale of land	–	4,500,000
Purchase of investments	(197,180)	(8,675)
Proceeds on redemption of investment	201,322	–
Purchase of income producing property	(7,059,381)	(7,703,337)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	–	485,924
	(7,055,239)	(2,726,088)
(Decrease) increase in cash	(1,380,428)	901,615
Cash, beginning of year	2,723,088	1,821,473
Cash, end of year	$ 1,342,660	$ 2,723,088

See accompanying notes to financial statements.

cSPACE PROJECTS

Notes to Financial Statements

Year ended December 31, 2017, with comparative information for 2016

---

1. Purpose of the organization:

cSPACE Projects ("cSPACE") is a not for profit organization incorporated under the Alberta Companies Act on October 27, 2011. cSPACE is established exclusively to promote, coordinate and facilitate real estate projects that establish affordable facilities, accommodation and education opportunities for artists and non-profit organizations operating in the arts or community sector. cSPACE is a wholly owned subsidiary of Calgary Arts Development Authority Ltd. ("CADA"). CADA is a controlled entity of the City of Calgary and therefore CADA and cSPACE are government organizations.

Management has determined that under section 149 (1) (l) of the Income Tax Act, cSPACE is not subject to the payment of income tax.

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations.

(a) Property under development:

Property under development is recorded at historical cost. Cost includes all expenditures incurred with acquisition, development and construction of the property under development.

These expenditures consists of all direct costs, property taxes, development fees, leasing fees, financial fees, and interest charges net of incidental operating revenue. Capitalization continues until the property achieves a satisfactory level of occupancy, subject to a reasonable period of time.

Property under development is not depreciated until development is complete and costs are transferred to income producing property.

(b) Income producing property:

The income producing property is recorded at the historical cost less accumulated depreciation and impairment charges, if any. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use and residual worth of the property. Should the net recoverable amount be less than the carrying value, the property would be written down to fair value.

cSPACE PROJECTS

2. Significant accounting policies (continued):

(b) Income producing property (continued):

Depreciation is recorded at rates consistent with the expected useful life of the asset using the straight line method at the following annual rates.

Asset	Rate
Buildings	25-40 years
Furniture and fixtures	5 years
Computer equipment	3-6 years

cSPACE uses a two-step process for determining when an impairment of the income producing property should be recognized in the financial statements. If events or circumstances indicate that the carrying value of the particular property may be impaired, a recoverability analysis is performed based on the estimated undiscounted future cash flows to be generated from property operations and its projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and impairment loss is recognized in the statement of operations.

(c) Revenue recognition:

cSPACE follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for which the related restrictions are unfulfilled are accumulated as deferred contributions. 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 are measured at fair value at the date of contribution if fair value can be reasonably estimated.

Restricted contributions for the purchase of property that will be depreciated are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property. Restricted contributions for the purchase of property that will not be depreciated are recognized as direct increases in net assets.

Rent for lease costs, where leases provide for increases in rent during their term, are recognized on a straight-line basis over the terms of the respective leases. Recoveries from tenants for operating expenses are recognized as revenues in the period the applicable costs are incurred.

cSPACE PROJECTS

2. Significant accounting policies (continued):

(d) Unearned revenue:

cSPACE defers revenue originating from tenant short-term pre-payments of monthly rental obligations and facility rentals which are recognized in rental revenue in the period in which the office premises is occupied or facility is used.

(e) Contributed goods and services:

cSPACE also received insurance coverage from the City of Calgary and free rental space from Calgary Arts Development Authority. The fair value of this contribution was not able to be determined and was not recognized in the financial statements.

(f) Financial instruments:

cSPACE initially measures its financial assets and financial liabilities at fair value. It subsequently measures all of its financial assets and financial liabilities at amortized cost. The financial assets measured at amortized cost include cash, investments, accounts receivable and goods and services tax receivable. The financial liabilities measured at amortized cost include the security deposits, long term debt and accounts payable and accrued liabilities.

For financial assets measured at amortized cost cSPACE regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and cSPACE determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversal of previously recognizes impairment losses are recognized in operations in the year the reversal occurs.

(g) Statement of remeasurement gains and losses:

As there are no items to be reported on the statement of remeasurement gains and losses, the statement has not been prepared.

(h) Management estimates:

The preparation of financial statements in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful life of buildings, furniture and fixtures and computer equipment. Actual results could differ from those estimates.

cSPACE PROJECTS

3. Investments:

	2017	2016
Guaranteed Investment Certificate with a maturity date of May 14, 2018, bearing interest at 0.90% per annum. The principal is renewable. The amount was to secure cSPACE's letter of credit and the restriction was removed during the year ended December 31, 2017 (note 6).	$ 197,180	$ 194,104
Guaranteed Investment Certificate with a maturity date of September 14, 2018, bearing interest at 1.40% per annum. The principal is renewable. The amount is to secure cSPACE's letter of credit, and is not readily available for use (note 6).	308,000	315,218
	$ 505,180	$ 509,322

4. Income producing property:

			2017	2016
	Cost	Accumulated depreciation	Net book value	Net book value
Lands	$ 2,899,485	$ –	$ 2,899,485	$ 2,899,485
Buildings	26,816,756	851,500	25,965,256	19,987,217
Furniture and fixtures	232,517	22,657	209,860	5,260
Computer equipment	2,585	–	2,585	–
	$29,951,343	$ 874,157	$29,077,186	$ 22,891,962

During the year ended December 31, 2017, cSPACE completed development of its property and all costs included in property under development were transferred to income producing property.

During the year ended December 31, 2017, $25,194 of interest was capitalized to income producing property (2016 - $13,497).

In 2017, cSPACE was required to provide a security deposit of approximately $544,700 in the form of bank drafts payable to the City of Calgary related to the occupancy of the main building on December 22, 2016 and occupancy of the building addition on October 1, 2017. The security deposit is to ensure cSPACE completes some small construction finishes on the building to have the occupancy permit. The amounts are returned as the construction pieces are finished. As of December 31, 2017, $371,500 has been released to cSPACE. It is anticipated the remaining $173,200 will be released in the first half of 2018.

cSPACE PROJECTS

5. Gain on disposal of lands:

On February 2, 2015, a purchase and sale agreement (the "Agreement B") was signed between cSPACE (the "Vendor") and another purchaser (the "Purchaser B") for approximately 0.88 acres of the land (the "Property B"). The total purchase price was $7.5 million. Of the total proceeds, $4.5 million would be directed to the City of Calgary if certain conditions were not met by specific dates. During the year ended December 31, 2016 the conditions were met and therefore cSPACE has earned these proceeds on the satisfying of the substantive conditions and accordingly the $4.5 million has been recognized.

6. Long term debt:

During 2016, cSPACE signed an agreement with a Canadian chartered bank for a credit facility (the "Facility") which was amended during the year ended December 31, 2017 and includes four segments with $3,500,000 being drawn on facility #4 as at December 31, 2017 (2016 - $nil).

Facility #1

The first facility is a $189,800 letters of credit or standby letters of credit and was utilized to provide payment certainty in favor or for the benefit of the City of Calgary, Roads (4003). During the year ended December 31, 2017, the City of Calgary released cSPACE from the letter of credit (note 3).

Facility #2

The second facility is a $308,000 letters of guarantee or standby letters of credit and is utilized to provide payment certainty in favor or for the benefit of the City of Calgary. This facility was not drawn as at December 31, 2017.

Facility #3

The third facility was a non-revolving multi-drawdown construction credit facility bearing interest at the bank's prime rate plus 0.60% for which the borrowing limit was increased from $3,000,000 to $3,500,000 during the year ended December 31, 2017. During the year ended December 31, 2017, the facility was cancelled with the amounts drawn of $3,500,000 being transferred to facility #4.

Facility #4

The fourth facility is a non-revolving term facility with variable or fixed interest to be determined at the time of borrowing with a term of 1 to 5 years, which became available upon substantial completion of the project. During the year ended December 31, 2017, the borrowing limit was increased from $3,000,000 to $3,500,000 and had $3,500,000 transferred from facility #3. Of the amounts drawn $1,500,000 is repayable one year from the date of drawdown, bears interest at the bank's prime rate plus 0.60% and shall be repaid by monthly payments of blended principal and interest of $9,750 amortized over 300 months.

cSPACE PROJECTS

6. Long term debt (continued):

The $2,000,000 is repayable 3 years from the date of drawdown, bears interest at 3.10% per annum and shall be repaid by monthly payments of principal and interest of $9,585 amortized over 300 months. The bank may cancel or restrict availability of any unutilized portion of this facility at any time from time to time without notice.

The Facility is secured by:

- a general security agreement constituting a first floating charge on all present and after-acquired real property of cSPACE and a first ranking interest in all personal property of cSPACE;
- registered first collateral mortgage on the project lands in the amount of $3,500,000; and
- assignment of rents signed by cSPACE constituting a first ranking assignment on the property.

__Facility #4__

The facility includes a financial covenant beginning in the year after initial drawdown requiring a debt service coverage ratio of not less than 1.1 to 1 and other non-financial reporting requirements of which cSPACE was compliant with all covenants.

Scheduled principal repayments due in the next three year are as follows:

2018	$ 1,552,923
2019	54,610
2020	1,892,467
	$ 3,500,000

7. Deferred contributions related to income producing property:

Deferred contributions related to property include spent and unspent funds received for the purposes of capital.

	Total
Balance, January 1, 2016	$ 8,253,095
Additions (note 8)	6,039,791
Balance, December 31, 2016	14,292,886
Additions (note 8)	833,180
Depreciation	(455,041)
Balance, December 31, 2017	$14,671,025

cSPACE PROJECTS

Notes to Financial Statements, page 7

Year ended December 31, 2017, with comparative information for 2016

7. Deferred contributions related to income producing property (continued):

Included in deferred contributions related to income producing property and accounts receivable is $554,549 (2016 - $1,500,000) with the City of Calgary. The transactions are measured at the exchange amounts as they occur within the normal course of operations.

8. Contributions:

(a) Contributions received for property (note 7):

	2017	2016
Province of Alberta	$ 62,000	$ 38,210
The Calgary Foundation	302,596	2,696,729
Canadian Heritage (i)	368,584	1,804,852
The City of Calgary	100,000	1,500,000
	$ 833,180	$ 6,039,791

(i) cSPACE received a grant from a federal government department, Canadian Heritage, for $2,000,000. The funding is allocated over two government fiscal years 2016 and 2017 and will be subject to certain terms and conditions. At December 31, 2017 all funds had been spent and the holdback of $195,148 is expected to be received after year end.

During the year ended December 31, 2017, cSPACE received confirmation of a second grant from Canadian Heritage for $500,000 to be spent in 2017 and 2018. At December 31, 2017, $173,436 remains unspent and is expected to be utilized early in 2018.

(b) Contributions received for operations:

	2017	2016
Canadian Heritage	$ –	$ 39,648
Alberta Foundation for the Arts	–	21,790
Province of Alberta	18,500	–
Calgary Arts Development Authority	272,000	320,000
	$ 290,500	$ 381,438

cSPACE PROJECTS

9. Expense by object:

The following is a summary of expense by object:

	2017	2016
Salaries and wages	$ 385,847	$ 338,227
Building operations	220,896	48,463
Amortization	874,157	–
Administrative expenses	162,469	92,780
Property tax (recovery) expense	(178,378)	82,063
Professional fees	6,477	39,813
Interest and bank charges	19,221	52,448
Other expenses	56,036	37,077
Advertising and promotion	11,394	1,609
	$ 1,558,119	$ 692,480

10. Property tax refundability:

As a non-profit organization, cSPACE is eligible for property tax exemption under the Municipal Government Act once in operations. However, as a facility under construction and not yet in use for an exempt purpose, cSPACE is required to pay property tax for the land and building to the City of Calgary. The payment includes a municipal and provincial portion. Up until the end of 2012, the City of Calgary reimbursed the entire municipal and provincial property taxes to cSPACE based on a special Notice of Motion by Council within the same year so there was no financial statement impact at year end. In 2013, Council decided to exempt the municipal portion of taxes only.

In 2014, a new policy for property tax exemption was instituted which requires the full amount of property taxes to be paid in the tax year and an application be submitted for a reimbursement of the municipal portion only. In order to receive a reimbursement, cSPACE must have an approved building permit and the reimbursement will not be approved until the building is occupied and in operation as an exempt use. As of December 31, 2017 cSPACE has submitted an application for exemption of a portion of 2017 and all prior year's municipal taxes of $212,594.

The approval of the application was approved subsequent to December 31, 2017, and $212,594 has been recognized in accounts receivable as at December 31, 2017.

cSPACE PROJECTS

11. Financial instruments:

cSPACE's financial instruments consists of cash, investments, accounts receivable, goods and services tax receivable, restricted investments, accounts payable and accrued liabilities, security deposits and long term debt.. It is management's opinion that cSPACE is not exposed to significant currency risk arising from these financial instruments.

(a) Credit risk:

cSPACE is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to cSPACE. Credit risk is assessed by management as minimal for cSPACE. cSPACE's accounts receivable are primarily due from governments and are subject to normal credit risk. cSPACE's cash and investments are held with a Canadian chartered bank and are subject to credit risk. The maximum credit risk exposure associated with cSPACE's financial assets is the carrying value.

(b) Liquidity risk:

Liquidity risk is the risk that cSPACE will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. Liquidity requirements of cSPACE are met through funding in advance of spending on income producing property and maintaining sufficient cash to meet short term obligations.

(c) Interest rate risk:

cSPACE is exposed to interest rate risk on its variable interest bearing non-revolving credit facility, which it actively monitors to mitigate.

12. Restricted fund:

During the year ended December 31, 2017, cSPACE's board of directors created a capital reserve fund and transferred $8,111 (2016 - $nil) from unrestricted net assets. The capital reserve fund is restricted for future capital projects by the board of directors.

13. Commitments:

cSPACE is committed to making the following annual lease payments related to office equipment until 2022:

2018	$ 81,180
2019	76,168
2020	24,602
2021	6,376
2022	1,015

cSPACE PROJECTS

14. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.