

Calgary Economic Development Ltd. and Calgary Film Centre Ltd.
Audit Governance Report
June 22, 2017

We are pleased to present the annual Audit Governance report from Calgary Economic Development Ltd (CED). This section contains CED's responses to the five items that are to be included in the annual report, and responses to the five additional questions posed in the letter from the Chair of the Audit Committee.

1. A brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2016 initiatives/strategy

1.1 Governance Structure

(a) Calgary Economic Development Ltd.

CED was incorporated as Promoting Calgary Inc. under the Business Corporations Act in the Province of Alberta in July 1999. It was reconstituted and changed its name to Calgary Economic Development Ltd. on January 1, 2003. CED is a government non-profit organization under the Income Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). CED is a controlled not for profit (NFP) organization of the City of Calgary with 100 shares issued.

CED's mission is to collaborate to advance opportunities in achieving economic success, embracing shared prosperity and building a strong community for Calgary. The mandate of CED is to work with business, government and community partners to position Calgary as the location of choice for the purpose of attracting and retaining business investment, fostering trade and growing Calgary's workforce.

CED has been receiving contributions from the City of Calgary since inception to sustain its operations. In 2016, the Company received an operating grant of \$5,367,212 (2015 - \$5,155,865) and the City has indicated that they will provide similar funding each year until the 2018 fiscal year, at which point the funding is subject to renegotiation. The base grant contributed 55% of CED's revenue in 2016. Additional revenue and funding sources in 2016 include the City of Calgary Economic Resiliency funds (\$1.8 million), private sector revenue (\$1.5 million) and revenue from other orders of Government (\$707,000).

CED's Board of Directors (the Board) oversees the organization's overall strategic direction (Exhibit 1). Management develops strategy and manages and conducts the day-to-day business. The Board ensures that systems are in place to effectively manage CED's business, but does not manage that business on a day-to-day basis.

The Board sets the mission, approves the 3-year strategy and annual business plan, monitors risk, and monitors compliance with fiduciary and legal requirements. It delegates to management the achievement of its 3-year and annual strategic, financial and other plans. CED's responsibilities to its multiple stakeholders are paramount in conducting its business. The ultimate objective for Directors is to maximize the value of the work of CED.

The board is supported by 4 board committees including the Corporate Governance and Effectiveness, Economic Strategy, Performance and Compensation and Audit. A skills matrix is used for Board recruitment, and the Board conducts an annual effectiveness survey to monitor success.

In addition to the board committees, there are also seven Advisory Committees which support the team's work in that sector and act as a pathway for industry leaders to qualify for board positions. These committees include:

- Financial Services
- Agribusiness
- Energy
- Workforce
- Transportation & Logistics
- Real Estate
- Renewables

(b) Calgary Film Centre Ltd.

Calgary Film Centre Ltd. (CFCL) was incorporated under the authority of the Alberta Companies Act on December 17, 2009. CFCL is a wholly owned subsidiary of CED with 100 shares issued to CED. On June 23, 2014 CFCL changed its name from The Alberta Creative Hub to Calgary Film Centre Ltd. CFCL was formed with the primary purpose of supporting the growth and development of the film, television, media and other creative industries. The new 85,000 square foot film centre was completed and opened on May 19, 2016. CFCL's aim is to deliver production support for local, national and international screen industry projects as the primary source for the attraction of film production to Calgary.

The film centre cost \$23.5 million for construction and \$4.8 million for land. To fund the construction of the film centre, CFCL received funding from the City of Calgary of \$10 million, Government of Alberta of \$5 million, a member of the business community of \$1 million and the balance of the project cost was funded with debt.

Two CED Board representatives sit on the CFCL Board of Directors: CED President & CEO, and one additional Board member. CFCL's size does not warrant separate advisory committees. The Board is comprised of 6 directors and have been carefully composed of Directors with financial, operating and film industry experience to provide the necessary strategic direction to CFCL.

1.2 Succession Planning and Recruitment Process

Board Directors are appointed at the annual general meeting of the shareholders for a one (1) year or two (2) year term, and are eligible for re-election to a maximum of six (6) consecutive years. A Director who has served a maximum term on the Board may be re-appointed after an absence of a minimum of one (1) year. No Board changes occurred in 2016. In 2017 one additional Board member was added and two members were removed, leaving one position to be filled. The Board is carefully composed of directors from legal, financial and key sector experience. On an annual basis the Board completes a board effectiveness survey, including a skills matrix and peer review evaluation.

CED is committed to fairness and equity in staff employment practices. All positions shall be staffed by qualified candidates who are selected and appointed on the basis of required knowledge and skills. Wherever possible, CED is committed to promoting/transferring current employees. CED has a HR coordinator and uses the Bamboo system to manage HR processes.

An organizational restructuring was completed in 2015, and CED's senior management team is now composed of seven (7) members. With the hiring of the new CFO/VP of Operations in September 2016, all senior management positions are now filled.

In April 2017, CED released an RFP inviting qualified firms to submit their proposal for the creation of a Management Team Succession Planning Process. The project kick-off occurred on June 1, 2017 and is estimated to be completed in Q3 2017. The Plan will provide a succession plan for each of the senior management team members including the CEO, and a development plan for high potential management throughout the organization. In 2016 and 2017 the Senior Management team undertook a 360 Leadership Profile which is accompanied by individual coaching sessions. Annual performance management plans and assessment required for the organization on an annual basis accompanied by quarterly review of goals.

1.3 Recent Financial Highlights

(a) Calgary Economic Development Ltd.

CED's December 31, 2016 financial statement audit was approved by the Board and completed on April 10, 2017. The December 31, 2016 audited financial statements and auditor's year end communications are attached to this report.

MNP was again able to provide an audit opinion that the financial statements present fairly, in all material respects, the financial position of CED as at December 31, 2016, and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with Canadian Public Sector Accounting Standards for NFP Organizations.

Expenses remained within the approved 2016 operating budget. The December 31, 2016 accumulated surplus was \$1,132,254, an increase of \$199,356 from the prior year's ending balance of \$932,898. This surplus is expected to be reduced over the next 3-5 years. CED's cash position at yearend is relatively strong.

The cash and deferred contributions are both up significantly year-over-year, which is related to the funding received from the City of Calgary's Resiliency Fund, Government of Canada's Western Diversification and Government of Alberta. Revenue and expenses are down year over year, \$2.7M and \$3.0M respectively, as 2015 included \$5M of Revenue/Expense related to the transfer of Government of Alberta funding to Calgary Film Centre Ltd. The \$5M grant was provided to CED in 2014 for the purpose of constructing the Film Centre; the entire amount has now been transferred to CFCL. 2016 revenue and expense also includes \$1.8M of Resiliency Fund activity funded by the City, with much of this expense being in the areas of marketing, promotion and program costs.

During 2016 CED obtained funding commitments of \$6.7 million from the City of Calgary, \$2 million from the Government of Alberta, \$1 million from the Western Diversification fund and \$0.3 million from ICCI. The funds are being used to expand CED's out of market and local marketing campaigns, further develop Calgary as an inland port, expand agribusiness and renewables initiatives and focus on real estate/head office strategy for Calgary.

As a NFP organization, CED uses deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

(b) Calgary Film Centre Ltd.

CFCL's December 31, 2016 financial statement audit was approved by the Board and completed on March 20, 2017. The December 31, 2016 audited financial statements and auditor's year end communications are attached to this report.

MNP was provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of CFCL as at December 31, 2016, and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Total bank indebtedness as of December 31, 2016 was \$12,637,879. This includes a 5 year loan of \$5,377,361, a 10 year loan of \$6,934,776 and a demand loan of \$325,742.

On August 2, 2016, CFCL converted its interim construction loan to an interest rate swap debt arrangement, split into two facilities one with a 5 year maturity and 2.3% interest rate and a 10 year maturity with 2.75% interest rate. CFCL uses hedge accounting for the interest rate swap which is in place to fix the interest rates as noted. On September 1, 2016, CFCL commenced making monthly loan payments on this debt of \$56,113.

A new debt facility in the amount of \$550,000 was set up with TD for the remaining construction and capital expenditures, this facility is available to December 2017. The loan balance as of December 31, 2016 is \$325,742 which will be converted to a 5 year term loan on December 31, 2017. The interest rate on this debt facility is prime.

CFCL has access to a \$250,000 operation line of credit that was not used in 2016.

There is a debt service covenant (DSC) on the TD debt of 100%. The DSC to be calculated as follows:

$$\frac{(\text{Excess of Revenues over Expenses plus Interest, Depreciation \& Amortization} - \text{Unfinanced Capex})}{(\text{Principal} + \text{Interest})}$$

Unfinanced Capex is defined as Capital Expenditures minus financing received (Bank or external) for the capital expenditure.

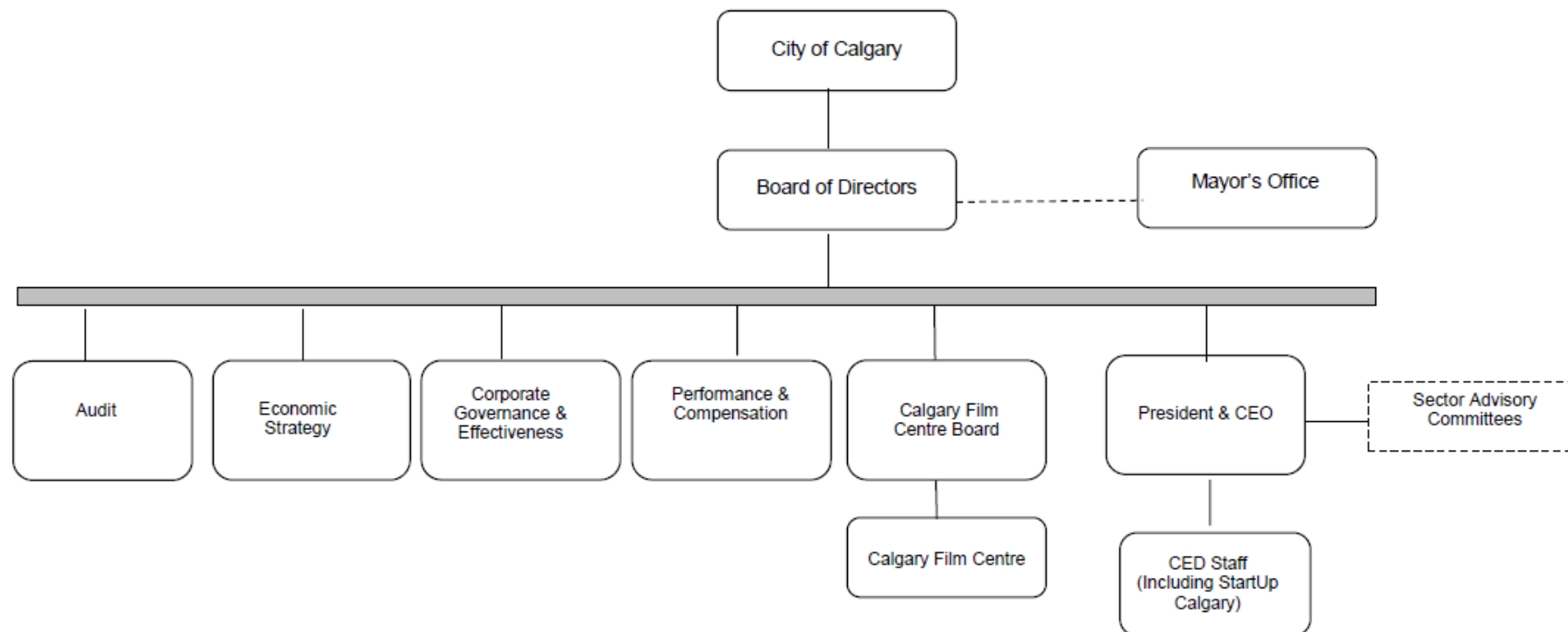
TD bank verbally waived the compliance with the covenant during the 2016 year as this was the first year of operation. The actual DSC was 140% thereby meeting the 100% DSC requirement.

The debt facilities are secured by a general security agreement with TD Bank representing first charge on all CFCL's present and after acquired personal property, and all other property, assets and undertakings and by a continuing collateral mortgage representing a first charge on the Centre's real property in the principal amount of \$14.1 million.

CFCL's success is dependent on a strong customer pipeline, and securing tenants. At December 31, 2016, CFCL has a tenant until May 19, 2017 for two of the three studios, and all three bays. No long term tenants have been secured past May 19, 2017. Cash flow therefore remains in a sensitive positive for 2017 and costs are being monitored closely and adjusted accordingly.

Exhibit 1

CED BOARD STRUCTURE



1.4 Key 2016 Initiatives/Strategy

2016 is the first year of CED's 2016-2018 three-year strategic plan. CED's strategy includes the following areas of focus:

- Accelerate Sector Development and Diversification
- Inspire Stakeholder Collaboration
- Enhance Calgary's Image
- Build an Authentic Brand for CED
- Build Organizational Excellence

Initiatives in this three-year plan will allow CED to position Calgary as the location of choice for the purpose of attracting business investment, fostering trade and growing Calgary's workforce. Progress and impacts are tracked through the use of a Balanced Scorecard (Exhibit 2).

Exhibit 2

Balanced Scorecard	Business Plan Impacts	2016 Business Plan Impacts	2016 Actual	2017 Business Plan Impacts	3 Year Strategy & Opportunity Calgary Impacts	Progress (R/Y/G)
<u>Accelerate Sector Development & Diversification</u>	Companies engaged/attracted	23	26	59	140	
	Companies retained/expanded	8	11	37	100	
	Total Companies	31	37	96	240	
	Trade & investment deals	13	1	18	40	
	# of direct/indirect jobs created/retained	1,300	1,561	3,000	7,000	
	Film production (As of March 31, 2017)	\$ 160,000,000	\$ 165,500,000	\$175,000,000	\$ 600,000,000	
<u>Inspire Stakeholder Collaboration</u>	Completion of Economic Strategy Tactics	20%	37%	50%	60%	
	Core indicators improved	30%	21%	30%	85%	
	Non-Core Revenue for Action Calgary, Workshift and Sponsorship	\$ 1,570,000	\$ 1,400,000	\$ 1,500,000	\$ 5,250,000	
	Non-Core Funding	\$ 1,870,000	\$ 11,500,000	\$ 1,800,000	\$ 6,250,000	
	New employer (WORKshift) clients	30	2	20	90	
	WORKshift earned revenue	\$ 625,000	\$ 393,000	\$ 600,000	\$ 2,400,000	
	AC earned revenue	\$ 945,000	\$ 850,000	\$ 1,000,000	\$ 2,850,000	
<u>Enhance Calgary's Image</u>	Canadians have favourable perception of Calgary	70%	75%	75%	75%	
<u>Build and Authentic Brand for CED</u>	Aided Awareness of CED	85%	85%	85%	90%	
	CED clients use research services	30%	40%	40%	40%	
<u>Build Organizational Excellence</u>	Employee engagement	59%	59%	75%	85%	
	Board effectiveness rating	75%	80%	80%	85%	

2. Report on your organizations key operating and strategic risks including trends and risk management plans and processes

CED and CFCL has created an Enterprise Risk Matrix to identify and manage risks and identify mitigating strategies (Exhibits 3 and 4). The risk matrix is reviewed quarterly by the Management, Committees and the Board and updated as necessary to reflect current risk levels. Key areas of risk include:

- Financial
- Reputational & Relevance
- Safety & Security
- Sustainability & Operational

Exhibit 3

Calgary Economic Development Enterprise Risk Matrix 2017

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
FINANCIAL	Reduction in Revenue	Medium	High	CEO	Board	- Manage program activity to available funding
						- Identify other revenue sources (e.g. CHA)
						- Educate City Council around value CED brings
						- Importance of Economic Diversity Activity & Measurement
	Operating Deficit/Retained Earnings	High	Medium	Senior Management	Audit Committee/Board	- Post Activity Analysis of Impact
						- Ensure Senior Management takes accountability for their budgets
	Fraud	Low	Low-Med	CFO	Audit Committee	- Ensure spending decisions are impactful (post initiative evaluation)
						- Internal controls including segregation of duties and oversight/review of results
						- Fraud Risk Assessment, including interviews with Board members
						- Approval processes in place & reviewed regularly
Calgary Film Centre	High	High	High	CEO/Film Commissioner	Audit Committee/Board	- Procedures
						- Reconciliations
Calgary Film Centre	High	High	High	CEO/Film Commissioner	Audit Committee/Board	- Risk Assessment for CFCL

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
REPUTATIONAL & RELEVANCE	Negative media coverage/tarnished reputation	Low	High	CEO/VP Marketing & Communications	CGE/Board	- Ensure consistency in messaging
						- Ensure official spokesperson have media training
						- Respond to all queries in timely and respectful manner
						- Crisis communication plan
	Strategic Alignment	Low	Medium	CEO/VP Research & Strategy	Board	- Maintain strong municipal government and private sector relationships to ensure strategic alignment to Market and Shareholder needs
						- KPI calibration and alignment to achieve organizational objectives and Economic Strategy
						- Communicate accomplishments against strategic plan
	Staff Conduct & Effectiveness	Low	Medium-High	CEO/Senior Management	P&C	- Annual staff and board acknowledgement of Policies and Procedures
						- Staff adherence to Policies and Procedures
						- Staff training and development
						- Staff acknowledgement of signed confidentiality clause in agreement pertaining to CED and third parties
	Board Composition & Effectiveness	Low	Medium	CEO	CGE	- Board Effectiveness Survey conducted annually
						- Use of evaluation matrix to compose diverse and skilled Board
						- Board Member discipline on determining conflict of interest
	WORKshift	Medium	Medium	CEO/CFO	CGE/Board	- All CED procedures apply to WORKshift
						- Protect WORKshift IP
						- Create Risk Assessment for WORKshift
	Calgary Film Centre	High	High	CEO/Film Commissioner	CGE/Board	- Risk Assessment for CFCL

Exhibit 3 continued

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
SAFETY & SECURITY	Death or injury to staff, volunteer or guest	Low	High	CFO/Senior Management	P&C	- Ensure appropriate Health & Safety Practices, including emergency procedures and evacuation drills - Sufficient insurance coverage (liability & recovery cost)
	Theft	Low	Medium	CFO	Audit Committee	- Property insurance - Physical asset tracking and audit - Security access cards - Cameras in Convention Centre
	Damage to Assets	Medium	Medium	Senior Management	Audit Committee	- Reparation conditions in GBC Facility Agreement

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
SUSTAINABILITY & OPERATIONAL	Technology - loss of data	Low	High	CFO	Audit Committee/Board	- Disaster recovery plan and Emergency Response Solution - Data backed up regularly (hourly or daily based on server type) - Servers and equipment checked regularly; replaced/upgraded when needed - Automated data integrity check for back-up - Off-site Data back-up - Climate controlled server rooms - Hosted Environment - Data loss and business interruption insurance
	Disrupted or significantly diminished operations	Low	Med-High	Senior Management	Audit Committee/Board	- Business Continuity Plan - Contingency for GBC & Film Centre - Create Cloud based IT environment
	Shareholder Relationship	Low	Medium	CEO	Board	- Regular meetings with Mayor, Council and Administration - Board and Committees include members from City Administration and/or Council - Create and communicate meaningful KPIs
	Government regulations/legislation changes	Low	Medium	Senior Management	CGE/Board	- Adhere to all regulatory requirements - Monitor changes in legislation that have a potential impact on operations/policies - Strengthen government relations
	Non-compliance with Human Rights or Employment Standards	Low	Medium	HR/CFO	Board/P&C	- Ensure policies comply with legislation with attention to employer's duty to accommodate and communicate policies to staff - Build an inclusive, diverse and respectful workforce - Provide ongoing support and counsel to all levels of management - Keep abreast of current legislative changes and requirements
	IP	Low	High	CFO	CGE/Board	- Be cognizant of issues of infringement and respond to them - Create inventory of Intellectual Property
	Loss of key staff	Medium	High	HR/CFO/CEO	P&C/Board	- Competitive Salary and Benefits - Create robust succession and retention plan and development plan

Exhibit 4

Calgary Film Center - Enterprise Risk Matrix

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
FINANCIAL	Reduction in Revenue/Operating Deficit	High	High	COO/GM	Board	<ul style="list-style-type: none"> - Manage rent charged per square foot to ensure maximum profitability - Identify and manage all operating costs and utility costs and ensure all tenants pay their portion - Create pipeline of tenants and manage to assure 81% capacity - Management responsible for spending decisions consider impact to operating cash flow, debt payments and debt covenants - Eliminate special introductory pricing and concessions
	Bank Debt Service ratio	High	High	COO/GM/CED CFO	Board	<ul style="list-style-type: none"> - Ensure cash flow is managed and reports/forecasts are closely monitored - Ensure revenue and spending decisions do not cause violation of debt covenant
	Fraud	Low	Low-Med	CED CFO	Board	<ul style="list-style-type: none"> - Internal controls including segregation of duties and oversight/review of results - Fraud Risk Assessment, including interviews with Board members - Approval processes in place & reviewed regularly - Procedures - Reconciliations
	Calgary Economic Development (CED) MSA Cost Increase	Medium	High	COO/GM	Board	<ul style="list-style-type: none"> - Organize processes and create standard schedule for recurring requirements such as reporting, invoicing and payments - Avoid last minute urgent requests - Focus on risks in decision making and communication of this
Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
REPUTATIONAL & RELEVANCE	Negative media coverage/tarnished reputation	Medium	High	COO/VP Marketing & Communications	Board	<ul style="list-style-type: none"> - Ensure consistency in messaging - Ensure official spokesperson have media training - Respond to all queries in timely and respectful manner - Crisis communication plan
	Strategic Alignment	Low	Medium	COO/GM	Board	<ul style="list-style-type: none"> - Communicate accomplishments against strategic plan
	Staff Conduct & Effectiveness	Low	Medium-High	COO/GM	Board	<ul style="list-style-type: none"> - Annual staff acknowledgement of Policies and Procedures - Staff adherence to Policies and Procedures - Staff training and development
	Board Composition & Effectiveness	Low	Medium	COO/GM	Board	<ul style="list-style-type: none"> - Board Effectiveness Survey conducted annually - Use of evaluation matrix to compose diverse and skilled Board - Board Member discipline on determining conflict of interest
	Service Delivery	Medium	Medium	COO/GM	Board	<ul style="list-style-type: none"> - Ensure tenant satisfaction and brand awareness - Current Labor Market Availability - USD/CAD Currency
	Facility Revitalization and Maintenance	High	High	COO/GM	Board	<ul style="list-style-type: none"> - Consistent resources and ability to maintain and upgrade the facility

Exhibit 4 continued

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
SAFETY & SECURITY	Death or injury to staff, volunteer or guest	Low	High	GM	Board	- Ensure appropriate Health & Safety Practices, including emergency procedures and evacuation drills - Sufficient insurance coverage (liability & recovery cost)
	Theft	Low	Medium	GM	Board	- Property insurance - Physical asset tracking and audit - Security access cards - Cameras in Convention Centre
	Damage to Assets	Medium	High	GM	Board	- Reparation conditions in tenant Agreements and continued security arrangements. - Significant deposits are part of all rental agreements. - Security guard and arrangements are closely managed and issues followed up.

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies
SUSTAINABILITY & OPERATIONAL	Defects, Deficiencies and claims significantly affect operations	Medium	High	COO/GM	Board	- Written communication of all deficiencies and follow-up needed. - Retain all documents required for warranty purposes - Claims are resolved on a timely basis - Develop a plan for addresses issues
	Disrupted or significantly diminished operations	Medium	Med-High	GM/CED CFO	Board	- Business Continuity Plan and Disaster Recovery Plan - Access controlled offices and facility
	Shareholder Relationship	Medium	Medium	GM	Board	- Regular meetings with CEO of CED, CFC Board Chair, GM and COO - Board and Committees include members from CED - Create and communicate KPIs on a monthly basis and more often as needed
	Government regulations/legislation changes	Low	High	Senior Management	Board	- Adhere to all regulatory requirements - Monitor changes in legislation that have a potential impact on operations/policies - Work with current gov't on long term issues - Strengthen government relations
	Non-compliance with Human Rights or Employment Standards	Low	Medium	HR/CED CFO	Board	- Ensure policies comply with legislation with attention to employer's duty to accommodate and communicate policies to staff - Build an inclusive, diverse and respectful workforce - Provide ongoing support and counsel to all levels of management - Keep abreast of current legislative changes and requirements
	Loss of key staff	Medium	High	Management	Board	- Competitive Salary and Benefits - Create robust succession and retention plan

3. Analysis of the top three risks that in our opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee

In CED's opinion the top three risks that would impact the City of Calgary and/or be of concern to City's Audit Committee are:

- Startup of Calgary Film Centre Ltd. (subsidiary of CED) and Alberta Media Fund
- Long term and sustainable in Funding
- Loss of Key Staff

Calgary Film Centre Ltd. (CFCL)

CED controls its wholly-owned subsidiary, CFCL. The film centre had its Grand Opening on May 19, 2016. As at December 31, 2016, CFCL has bank indebtedness of \$12,637,879. This indebtedness is secured by a general security agreement with a Canadian Chartered Bank representing first charge on all CFCL's present and after acquired property, and all other property, assets and undertakings and by a continuing collateral representing a first charge on CFCL's real property in the principal amount of \$14,100,000, beneficially owned by and registered in the name of CFCL.

The loan facilities are subject to certain financial and non-financial covenants including a debt service covenant ratio. To remain in compliance with financial covenants, CFCL must maintain a debt service coverage ratio of not less than 100%, which is to be tested at minimum annually. In order to maintain the DSC ratio and cash flow requirements the film center works to maintain occupancy with standard lease rates. The industry operates on a late booking cycle and there are prospects in the pipeline, the risk is that CFCL is not able to lease space to meet its financial obligations.

A separate risk assessment has been created to identify risks associated with CFCL (Exhibit 4). Due to the high risk associated with reduced rental revenue, CFCL has identified various mitigating strategies, including managing rent charged per square foot, managing operating costs, allocating more support to business development efforts and creating a pipeline report of potential tenants. To manage the risk associated with maintaining the debt service coverage ratio CFCL closely monitors its cash flow and revenue and spending decisions, communicates with lender, informs board of directors and prepares regular sensitivity reports and forecasts. It is investigating options to the Alberta Media Fund with Government of Alberta.

Reduction in Funding

CED has been receiving contributions from the City of Calgary since inception to sustain its operations. In 2016 CED received an operating grant of \$5,367,212 which was 55% of total funding for the year. The City has indicated that they will provide similar funding each year until the 2018 fiscal year, at which point funding is subject to renegotiation. The additional funding of 45% is obtained from private sector and other orders of government and allows CED to provide key programs. This economic downturn has impacted private funding and with the unpredictability it makes program development and implementation difficult.

CED is planning on benchmarking its funding model against competing cities and will report to City Council before the next budget cycle.

CED has a planning and budgeting process in place to help determine the funds required to support its normal operating requirements on an ongoing basis. CED ensures there are sufficient funds to meet its short-term requirements, considering its anticipated cash flows from operations and its holdings on cash and cash equivalents. CED program activity is managed to the funding available.

The risk is that CED will not receive funding in 2019 to allow it to maintain the programing activity and service levels it has built.

Loss of Key Staff

Staff retention and the loss of key staff not only poses significant cost risks for CED, but also poses a risk to the continued success and organizational excellence of CED.

To mitigate this risk, CED is developing a succession planning process for each of the senior management team members and high potential management employees. This plan will identify criteria to select high potential leaders, how to fairly assess their development needs, and develop a step-up program to provide development and training opportunities. This plan will be completed in Q3 2017. CED does annual benchmarking of salary and benefits to other government agencies. Finally, CED had a contact relationship software to maintain intellectual capital and continuity in relationships.

4. Report on internal controls including information technology and systems

CED has implemented several controls as part of its fraud prevention, including appropriate segregation of duties and regular reviews of financial results. Approval processes and procedures are in place, and reviewed regularly. As part of the audit CED has an annual fraud risk assessment with the audit committee.

CED has outsourced its IT services to Northern Backup who manages the co-located servers, provides hosting services, helpdesk support, technical support and enhancements. Utilizing the expertise of an IT company ensures strong security, timely technical response and support. As part of CED's data loss prevention strategies, it has implemented the following:

- Data back up regularly (hourly or daily based on server type) with automated data integrity check for backup
- Off-site data backup
- Climate controlled server rooms
- Servers and equipment checked regularly and replaced/upgraded when needed

CED in conjunction with its IT provider is moving towards a fully hosted cloud computing and establishing a disaster recovery plan and emergency response plan. These require implementation of a Wide Area Network (WAN) Layer 2 (L2) Ethernet Line that provides 100 Megabits per second (Mbps) internet speed with the capability of going up to 1 Gigabits per second (Gbps). This line will directly connect to the Calgary-based data centre provided by Bell and managed by CED's IT Managed Service Provider, Northern Backup. Completion of these projects are estimated for the end of July 2017. A business continuity plan is being created, and will be completed in 2017 to coincide with these significant infrastructure changes.

5. Most recent financial reporting including management responses as appropriate

MNP, auditors for both CED and CFCL, attended the March meeting of the Audit and Finance Committee and the CFCL Board meeting to present their reports for both CED and CFCL for the year ended December 31, 2016. These reports are included as Attachments 2 and 4.

The communications and findings arising from the audit are:

- An unqualified opinion was issued for both CED and CFCL on the financial statements after all procedures were completed
- There were no deviations from the Audit Service Plan that was communicated to the Audit Committee on September 15, 2016.
- The auditors did not experience any significant difficulties while performing the audits that would have placed any limitations on scope or timing of the audit
- No incidents of fraud, or suspected fraud came to the auditors' attention in the course of the audit. The risk of the financial statements being material misstated due to fraud was assessed as low.
- Nothing came to the attention of the auditors that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

- All related party transactions identified were in the normal course of business and accounted for appropriately in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
- No material uncertainties related to events or conditions that may cast significant doubt on the Companies' ability to continue as a going concern were identified.
- The disclosures made in the notes to the financial statements appeared clear, neutral and consistent with the auditors understanding of the entity and the amounts presented in the financial statements.
- No differences were proposed to management with respect to the December 31, 2016 financial statements.

We are also pleased to present answers to the additional questions posed in the letter from Councillor Woolley.

a) What is the frequency of review and are there any recent changes to the Audit and Finance Committee Charter or Terms of Reference?

The Audit Committee meets quarterly to review financial and risk reporting and reports to the Board of Directors based on information reviewed at those sessions. The Audit Committee is responsible for stewardship of the Corporation's finances. The Audit Committee has oversight responsibility and makes recommendations to the Board on:

- The integrity of CED's financial statements;
- Corporate Filings to registry office and City of Calgary;
- The external auditors' qualifications and independence;
- The performance of audit functions;
- Annual budgets;
- Financing arrangements;
- The adequacy and effectiveness of internal controls;
- Risk areas around fraud, including amendments to Corporate Policies;
- Adequacy of financial stewardship by Management;
- Protection of physical assets, whether due to theft or damage;
- Protection of corporate data and technology continuity; and
- Business continuity.

The Audit Committee shall review its terms of reference as needed, but at least annually, and recommend changes as necessary.

In 2016 the Audit Committee Terms of Reference were last reviewed and amended at the September 15, 2016 audit committee meeting.

b) What is current composition of the Audit and Finance Committee and what is their relevant financial experience?

i. CED

Leontine Atkins, Committee Chair – CED Board Director

Leontine Atkins holds the Institute of Corporate Directors Education Program Designation (ICD.D) and regularly facilitates sessions for the ICD Director Education Program and ICD Audit Committee Effectiveness seminars.

Leontine was recently appointed a Board member of KPMG Canada's Board of Directors. Leontine is currently a member of the Board of Calgary Economic Development and Chair of their Audit Committee. Leontine is also a Board and Audit Committee member of the Heritage Park Society. She is a former Board member and Chair of the Glenbow Museum's Audit Committee. She previously served on the UNICEF Calgary Patron's Council for the annual Water for Life Gala.

Leontine has been with KPMG since 1987, an audit partner since 1998, and also worked in KPMG's European (Amsterdam, London) practice for 15 years. Leontine has financial experience in industrial and energy sectors, including international and North American oil and gas (upstream and downstream), oil sands, utilities, pipelines, gas storage, power (gas, coal, nuclear and renewables), and (petro- and agri-)chemicals.

Leontine is a Business Administration - Finance graduate of Acadia University, and earned her Master of Business Administration degree at Dalhousie University. Leontine also holds the Canadian Institute of Chartered Professional Accountants and Netherlands Institute of Chartered Accountants professional designations.

Lori Caltagirone – CED Board Director

Lori is a Chartered Accountant, a Certified Internal Auditor and an acclaimed business professional, serving on the boards of directors for Calgary Economic Development and the New West Symphony & Chorus. Until recently, Lori also served on the Board of Directors for the Calgary Philharmonic Orchestra for seven years, and Chaired the Audit & Finance Committee for the last four years.

Lori spent decade with several multinational companies including: Mobil Oil Canada, ExxonMobil, Imperial Oil and Enbridge Pipelines, serving in their Internal Audit departments by leading entity-wide risk assessments, operational, joint venture, efficiency and compliance audits.

In 2004, Lori formed Sunesis. Inspired by the concepts of excellence in thought, strategic foresight and good judgement, Lori named her company Sunesis, which is a Greek word for "wisdom."

Over the last twelve years, through Sunesis, Lori has created and led Sarbanes-Oxley compliance programs, governance evaluations, enterprise risk management systems and internal audit functions for her clients, which include Crescent Point Energy, Seven Generations, Tourmaline Oil Corp, Advantage Oil & Gas, and Painted Pony Petroleum to name a few. Lori also currently serves as Crescent Point Energy's Chief Audit Executive.

Recognized as an expert, Lori's insights have been quoted in the National Post, Oil Week, and the Explorer Magazine. Lori is also a frequently sought speaker at the Federated Press and Infonex conferences and has been a guest lecturer at Mount Royal University and the University of Alberta.

In 2015, received the prestigious Distinguished Service Award from the Institute of Chartered Accountants of Alberta.

Tom Hodson – CED Board Director

Tom Hodson is a global chief executive who has worked across multiple sectors - consumer packaged goods, technology, consulting, construction, and mining. He has been the CEO of public (Nasdaq/TSX), private equity, and privately owned companies and is currently the Chief Executive Officer of Alberta based Tiger Calcium Corporation, the largest calcium chloride mining and manufacturing company in North America.

In his previous role as CEO of the Calgary based Skyline Group, Tom completed a significant turn-around of one of North America's largest commercial construction companies specializing in commercial building envelope construction. He led the development of a comprehensive business plan that resulted in the complete reorganization, restructuring, and refinancing of the company. This business renewal led to the successful divestiture of Skyline in July of 2015.

Prior to joining Skyline, Tom was President of SMART Technologies. Over more than six years, he and his team built a privately held mid-sized Alberta-based technology company into a publicly traded global powerhouse doing business in 70+ countries with an enterprise value of over \$2 billion dollars and over 4,000 employees and agents worldwide. Tom and his team pioneered the use of interactive whiteboards (SMART Boards) as a disruptive technology replacing blackboards in classrooms around the world. He personally travelled the globe to over 40 countries championing the use of SMART products as a transformative technology for classroom education. He is a thought-leader on the subject of global strategy and expansion.

Before joining SMART Technologies, Tom and two partners built Optime International, a management consulting practice focused on building customer-centric organizations. Over six years they developed an enviable client list including Pepsi, The Toronto Maple Leafs, Nestle, TELUS, Molson, and General Motors. The company remains a key player in the North American consulting industry.

The first 16 years of Tom's career were spent at global consumer packaged goods leader Procter & Gamble where he rose to be one of P&G's top executives in Canada.

Tom presently serves on the board of Calgary Economic Development. Tom is also on the board of trustees with the Alberta Cancer Foundation, and is the co-author of the internationally acclaimed business book 'A Blueprint for Winning with Today's Customer' published by John Wiley and Sons New York and Toronto, 2005. Tom holds a Master of Business Administration (MBA) degree from Queen's University in Kingston, Ontario.

Sandip Lalli – Community Member

With a global career that has taken Dr. Sandip Lalli, FCPA, ICD.D from Alberta to Singapore and many other countries along the way, Sandip was the President and Chief Executive Officer with Keystone Excavating Ltd, a 35 year leading company in Alberta's Residential and Commercial construction industry.

Sandip holds an Institute of Corporate Directors, ICD.D, a Doctorate in Business Administration degree, a Master's degree and is a Fellow Chartered Professional Accountant. Previous roles held by Sandip include her role as Operational Business Risk Advisor, Asia Pacific for a United States Multi-National organization based in Singapore; Founder, Executive Vice President and Chief Financial Officer of a Calgary-headquartered industrial gas manufacturing firm; and a number of financial management positions in the United States with a multinational.

Mary Moran – President & CEO Calgary Economic Development

Mary became President and CEO of Calgary Economic Development in June 2015 and under her leadership there has been a focus on the broader sense of prosperity for businesses and individuals to build a more economically diverse and vibrant community.

Mary initially joined Calgary Economic Development as the Vice President, Marketing, Communications & Research in 2010. She brought extensive leadership experience in the development of strategy, marketing, stakeholder relations, and fund development with leading companies including TELUS, Delta Hotels, Canadian Airlines and WARDAIR.

At Calgary Economic Development, Mary led teams that created the Calgary. Be Part of the Energy promotional brand that has been adopted by all civic agencies, the award-winning local flood recovery YYCisOPEN campaign, and she oversaw a refocusing of the 10-year Economic Strategy for Calgary: Building on our Energy. Under Mary's leadership, her teams have earned more than 100 major marketing and economic development awards.

Mary earned an MBA from Royal Roads University and is active in the Calgary community. She is a director on several non-profit boards, including Sport Calgary, Calgary Sport Tourism Authority, Calgary Police Foundation, Beakerhead and Van Horne Institute. She is also a past president of Ronald McDonald House Southern Alberta.

ii. CFCL

The CFCL Board does not have a separate Audit and Finance Committee. The CFCL Board has instead been carefully composed of Directors with financial, operating and film industry experience to provide the necessary strategic direction to CFCL.

Patricia McLeod, QC, Board Chair – Former CED Board Director

Patricia McLeod, Q.C. is a lawyer and corporate director with over 22 years of experience in regulated and deregulated companies and private practice law firms. Patricia is proficient in the areas of corporate/commercial, compliance and securities law, corporate responsibility, privacy, ethics and corporate governance.

Patricia is currently the Associate General Counsel for Western Financial Group. She previously held the roles of General Counsel for a property development and mortgage investments company, and as Vice President and Compliance Officer for regulated and deregulated utility companies in Alberta. Patricia has an MBA from Queen's University, is a Certified Compliance & Ethics Professional, and a graduate of

the Institute of Corporate Directors accredited directors program. She was appointed as Queen's Counsel in Alberta in January 2014.

She is also a board director of Calgary Co-op, Alberta Innovates and the Beverage Container Management Board. Patricia is passionate about community building and serving as a director in the not-for-profit sector of Calgary. She is Chair of the board of directors of the Calgary Film Centre and cSPACE Projects and is a past Chair of the board of the YWCA of Calgary.

Patricia, her husband Dan and their two daughters enjoy a busy active life in Calgary, including participating in various sports, arts and community activities and travel.

Victoria Bradbury

Victoria Bradbury is a Chartered Professional Accountant in Canada, a Fellow Chartered Accountant of England & Wales and a Certified Management Consultant with over 10 years international experience with PwC and over 15 years of broad industry experience.

Fluently bilingual, Victoria has worked and lived in Europe as well as in several cities across Canada, giving her a unique perspective and experience in innovative financial and management strategies.

Victoria has extensive industry experience as CFO or Controller of privately held groups of companies with multi-billion dollar portfolios of assets, real estate and investments as well as experience within the educational field, having been a lecturer at the University of Alberta and a community college lecturer in Ottawa. A member of the Institute of Corporate Directors, she understands the key issues of governance, audit and risk and is committed to life-long learning.

Victoria's belief in giving back to the community is demonstrated by her extensive volunteer Board experience, having been Treasurer, Vice-President and President of numerous not for profit organizations, such as school councils, churches, pre-schools, Scouts, Guides, youth sports teams, French community associations and the Institute of Management Consultants. She served as finalist judge at the annual CPA Corporate Governance / Business Case competition for the past three years. Currently, she sits on the Boards of the Calgary Film Centre, CanLearn and McGill Alumni Association of Calgary and most recently has been nominated to sit on the Board of the Alliance Française.

Debra Deane – CED Board Director

Debra Deane is a successful business woman with a strong background in strategy, business development, marketing & communications, and operations. Currently Debra is a member of the executive team at Zedi, an oil and gas servicing company that designs advanced well monitoring and production operation solutions that deliver meaningful information directly from the wellhead to the desktop. Since joining Zedi in 2004, Deb has served the executive leadership team as Vice President for a number of portfolios and is currently Vice President, People. Debra's skill and approach to business along with her positive character contributes to the high respect her employees, coworkers, peers and members of the community at large hold for her. She is a true leader, whose opinions and values people often seek out before they make important business decisions.

Away from the office, Debra gives back to the community with her numerous volunteer commitments. Debra is the past president and director of the Board of Directors of Ronald McDonald House Southern Alberta. She began volunteering with the House in 2003 and joined the board as a Director, Co-chairing

the Fund Development Leadership Committee in 2004. As President, Debra sat on the Capital Campaign Cabinet and the New House Committee which led the build of the Calgary Ronald McDonald House that is situated near the Children's Hospital. Debra also chaired the New House Committee for the build of the Ronald McDonald House in Red Deer and was the co-chair of the organization's inaugural Rock the House Run event.

Debra's other volunteer work in the Calgary community includes being a member of the Global Advisory Committee for Ronald McDonald House Charities in Chicago and Director on the Salvation Army Board of Governors for Community Services (Calgary). She has served on the Advisory Board for the SAIT Applied Degree programs and was President of the Calgary Chapter of the Canadian Information Processing Society (CIPS). She is a current member of the CED Board. She volunteers her time speaking at the University of Calgary's Haskayne School of Business MBA, EMBA and BCOMM classes.

Debra was a member of the inaugural class of the Alberta/Haskayne Executive MBA. Her no nonsense style and respect for individuals are trademarks of her success that exemplified her contribution to the graduating class of 2007. After graduation Debra volunteered for the Haskayne School Alumni Association. Seeing the value of the programs offer at the school and a need to keep Alumni informed and involved, Deb took on the role as President of the HSB Alumni Association in 2004. Debra was the recipient of the 2007 University of Calgary Women's Resource Centre Distinguished Alumna award.

Having completed several marathons and two full Ironman events, Debra continues to stay active through running, cycling and competing in agility trials.

Douglas Macleod

Doug MacLeod has been actively involved in the Canadian film and television industry for over thirty-five years, executive producing and producing feature films, television movies and prime time dramatic television series for domestic and international markets.

Doug is a graduate of both the CTSR program at SAIT (1974) and the Communication Arts Program at Concordia University in Montreal (1976). Doug makes his home in Canmore, Alberta, where he has lived with his family for the past fifteen years.

Mary Moran – CED President & CEO and Director

Mary became President and CEO of Calgary Economic Development in June 2015 and under her leadership there has been a focus on the broader sense of prosperity for businesses and individuals to build a more economically diverse and vibrant community.

Mary initially joined Calgary Economic Development as the Vice President, Marketing, Communications & Research in 2010. She brought extensive leadership experience in the development of strategy, marketing, stakeholder relations, and fund development with leading companies including TELUS, Delta Hotels, Canadian Airlines and WARDAIR.

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Mary earned an MBA from Royal Roads University and is active in the Calgary community. She is a director on several non-profit boards, including Sport Calgary, Calgary Sport Tourism Authority, Calgary Police Foundation, Beakerhead and Van Horne Institute. She is also a past president of Ronald McDonald House Southern Alberta.

Murray Sigler – Former CED Board Director

Murray Sigler is President of Axia North America and Executive Vice President of Calgary-based Axia Net Media Corporation, the owner and operator of open access next generation fibre optic broadband networks in Canada, United States, and Europe. Murray has had a long and distinguished career, including 15 years in the aviation industry, having served as President of Canadian Regional Airlines and Canadian Airlines International. More recently, he guided the Calgary Chamber of Commerce as its President & CEO, and was the Managing Director of the Alberta UK office in London, England for four years. In May 2009, Murray returned to Calgary to join Axia.

A lawyer by training, Murray is an active member of the Law Society of Alberta. He is also a graduate of the Harvard Graduate School of Business (Advanced Management Programme).

Murray is a very strong advocate for Calgary, and has been an active Board member of several community organizations, including currently serving on the Board of Calgary Airport Authority. In his spare time he enjoys hiking and golf, and is an avid fan of both the Flames and Stamps.

c) Have there been any significant changes to organizational leadership?

Sheila Will, was hired as the new CFO and VP of Operations in September 2016. All other members of the senior management team have been in their role for at least a year.

d) Are there any regulatory or market changes that may impact the current business approach and would be relevant to share publicly with the Audit Committee?

Calgary Film Centre Ltd. is exposed to risk based on Alberta Media Fund capping and reduced funding provided by the Government of Alberta, which impacts lease revenue required to cover debt payments.

e) Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks addressed in your presentation?

Both CED and CFCL have created an Enterprise Risk Matrix to identify the top risks to their strategic goals, and identify mitigating strategies (Exhibits 3 and 4). Starting in 2016, the matrix is reviewed quarterly by the Committees and the Board and updated as necessary to reflect current risk levels.

CED has developed a balanced scorecard and individual performance metrics to help focus efforts and measure impacts. A Business Continuity plan is being established and will be completed in 2017.