Grant Thornton

# Financial Statements

# Newvest Realty Corporation

December 31, 2013

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# Independent Auditor's Report

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To the Shareholders of

**Newvest Realty Corporation**

We have audited the accompanying financial statements of **Newvest Realty Corporation** which comprise the statement of financial position as at December 31, 2013, and the statements of income and comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and 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 International Financial Reporting 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.

**Auditor's 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 the auditor's 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, the auditor considers 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.

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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 **Newvest Realty Corporation** as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Other matter**

The financial statements of Newvest Realty Corporation for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on July 4, 2013.

Grant Thornton LLP

Toronto, Ontario
May 21, 2014

Chartered Accountants
Licensed Public Accountants

## Newvest Realty Corporation
## Statement of Financial Position

| December 31, | 2013 (000's) | 2012 (000's) |
|---|---|---|
| **Assets** | | |
| Non-current | | |
| Investment properties (Note 6) | $ **349,164** | $ 312,306 |
| Non-current assets related to discontinued operations (Note 7) | - | 16,190 |
| | **349,164** | 328,496 |
| Current | | |
| Accounts receivable | **507** | 525 |
| Prepaid expenses | **314** | 3,081 |
| Cash and cash equivalents | **5,208** | 4,694 |
| Current assets related to discontinued operations (Note 7) | **24** | 15 |
| | **6,053** | 8,315 |
| **Total assets** | $ **355,217** | $ 336,811 |
| **Liabilities** | | |
| Non-current | | |
| Mortgages payable (Notes 8 and 16) | $ **109,676** | $ 97,036 |
| Non-current liabilities related to discontinued operations (Note 7) | - | 3,675 |
| | **109,676** | 100,711 |
| Current | | |
| Mortgages payable (Notes 8 and 16) | **3,474** | 2,963 |
| Payables and accruals | **6,033** | 5,754 |
| Current liabilities related to discontinued operations (Note 7) | **53** | 249 |
| | **9,560** | 8,966 |
| **Total liabilities** | **119,236** | 109,677 |
| **Equity** | **235,981** | 227,134 |
| **Total liabilities and equity** | $ **355,217** | $ 336,811 |

On behalf of the Board

_____________ Director _____________ Director

## Newvest Realty Corporation
## Statements of Income and Comprehensive Income

| Year Ended December 31 | 2013 (000's) | 2012 (000's) |
|---|---|---|
| **Revenue** | | |
| Rental income (Note 11) | $ 20,476 | $ 18,896 |
| Expense recoveries from tenants | 11,107 | 10,264 |
| Interest income | 56 | 71 |
| | 31,639 | 29,231 |
| **Expenses** | | |
| Property operating costs (Note 12) | 12,314 | 11,276 |
| Mortgage interest | 5,445 | 4,753 |
| Asset management fees (Note 13) | 876 | 811 |
| Administrative costs | 174 | 129 |
| Participation fees (Note 13) | 1,720 | 2,736 |
| | 20,529 | 19,705 |
| Income from continuing operations | 11,110 | 9,526 |
| (Loss) gain on market value from sale of investment properties | (1) | 3,760 |
| Increase in fair value of investment properties (Note 6) | 5,991 | 16,578 |
| Income and comprehensive income from continuing operations | 17,100 | 29,864 |
| Income and comprehensive income from discontinued operations (Note 7) | 1,469 | 1,640 |
| **Net income and comprehensive income** | $ 18,569 | $ 31,504 |

## Newvest Realty Corporation
## Statement of Changes in Shareholders' Equity

| | | Share Capital (Note 10) (000's) | | Retained Earnings (000's) | | Total (000's) |
|---|---|---|---|---|---|---|
| Equity, January 1, 2012 | $ | 132,851 | $ | 58,689 | $ | 191,540 |
| Changes during the year | | | | | | |
| Net income and comprehensive income | | - | | 31,504 | | 31,504 |
| Dividends paid (Note 9) | | - | | (27,410) | | (27,410) |
| Issuance of common shares | | 53,110 | | - | | 53,110 |
| Cancellation of common shares | | (21,610) | | - | | (21,610) |
| Equity, December 31, 2012 | | 164,351 | | 62,783 | | 227,134 |
| Changes during the year | | | | | | |
| Net income and comprehensive income | | - | | 18,569 | | 18,569 |
| Dividends paid (Note 9) | | - | | (14,810) | | (14,810) |
| Issuance of common shares | | 9,478 | | - | | 9,478 |
| Cancellation of common shares | | (4,390) | | - | | (4,390) |
| **Equity, December 31, 2013** | **$** | **169,439** | **$** | **66,542** | **$** | **235,981** |

# Newvest Realty Corporation
## Statement of Cash Flows

| Year Ended December 31 | | 2013 (000's) | | 2012 (000's) |
|---|---|---|---|---|
| Increase (decrease) in cash and cash equivalents | | | | |
| **Operating activities** | | | | |
| Income and comprehensive income from continuing operations | $ | **17,100** | $ | 29,864 |
| Adjustments to reconcile income to net cash flows | | | | |
| Amortization of tenant inducements | | **229** | | 216 |
| Mortgage interest | | **5,445** | | 4,753 |
| Loss (gain) on sale of investment properties | | **1** | | (3,760) |
| Increase in fair value of investment properties | | **(5,991)** | | (16,578) |
| Amortization of straight-line rent | | **(84)** | | (426) |
| Net changes in non-cash operating items | | | | |
| Accounts receivable | | **18** | | (9) |
| Prepaid expenses | | **2,767** | | (1,301) |
| Payables and accruals | | **224** | | 911 |
| Cash and cash equivalents provided by operating activities | | **19,709** | | 13,670 |
| **Financing activities** | | | | |
| Issuance of common shares | | **9,478** | | 53,110 |
| Dividends paid | | **(5,600)** | | (28,410) |
| Issuance of mortgage payable | | **15,190** | | 25,063 |
| Repayment of mortgage payable | | **(3,253)** | | (9,857) |
| Interest paid | | **(5,654)** | | (4,688) |
| Deferred financing costs | | **(20)** | | (75) |
| Cancellation of common shares | | **-** | | (21,610) |
| Cash and cash equivalents provided by financing activities | | **10,141** | | 13,533 |
| **Investing activity** | | | | |
| Acquisition of investment properties | | **(27,358)** | | (75,346) |
| Additions to investment properties | | **(2,157)** | | (1,292) |
| Proceeds from disposition of investment properties | | **-** | | 48,265 |
| Cash and cash equivalents used in investing activities | | **(29,515)** | | (28,373) |
| Net increase (decrease) in cash and cash equivalents from continuing operations | | **335** | | (1,170) |
| Net increase in cash and cash equivalents from discontinued operations | | **179** | | 1 |
| Cash and cash equivalents, beginning of year | | **4,694** | | 5,863 |
| Cash and cash equivalents, end of year | $ | **5,208** | $ | 4,694 |

## 1. Nature of operations

Newvest Realty Corporation (the "Corporation") was incorporated on August 9, 2001 under the Canada Business Corporations Act. It is also registered under the Corporations Act of the Province of Newfoundland and Labrador. The Corporation has its headquarters in Toronto, Ontario. All shares of the corporation are held by the Province of Newfoundland and Labrador Pooled Pension Fund (the "Fund"). Board members are appointed by the Pension Investment Committee of the Fund. The purpose of the Corporation is to invest monies received from the Fund in Canadian investment property.

Shareholders are required to be in compliance with Section 149(1) of the Income Tax Act (Canada) for the Corporation to qualify as a tax exempt corporation. Accordingly, no provision for income taxes has been made in these financial statements.

The Corporation has an Investment Services Agreement with Bentall Kennedy (Canada) Limited Partnership ("Bentall Kennedy") dated 30 June 2001 and an Amended And Restated Investment Services Agreement dated November 25, 2013 under which Bentall Kennedy is responsible for the acquisition, disposal, leasing and management of real estate properties and performance of all administrative functions on behalf of the Corporation.

## 2. General information and statement of compliance with IFRS

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These financial statements for the year ended December 31, 2013 (including comparatives) were approved and authorized for issue by a designate of the Directors on May 21, 2014.

## 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

### Investment properties

Investment properties include retail and commercial properties held to earn rental income and for capital appreciation.

Investment properties acquired as an asset acquisition are recorded initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

### 3. Summary of significant accounting policies (continued)

#### Investment properties (continued)

Subsequent to initial recognition, investment properties are recorded at fair value. The changes in fair value for each reporting period are recognized in the statements of income and comprehensive income. In order to avoid double accounting, the carrying value of investment properties includes straight-line rent receivable, tenant incentives, long term replacement items and direct leasing costs, since these amounts are incorporated in the appraised values of the real estate properties. Fair value is based upon valuations performed by an appraiser accredited through the Appraisal Institute of Canada, using recognized valuation techniques including the direct capitalization income and discounted cash flow methods. Recent real estate transactions with similar characteristics and location to the Corporation's assets are also considered. The direct capitalization income method applies a capitalization rate of the property's stabilized net operating income which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the property. The resulting capitalized value is further adjusted, where appropriate, for extraordinary costs to stabilize the income and non recoverable capital expenditures.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Corporation and the cost of the item can be measured reliably. Such costs include site preparation costs, which are incurred to improve the condition of a space to enhance its leaseability, and capital expenditures. All other repairs and maintenance costs are expensed when incurred.

Investment properties are derecognized when they have been disposed.

#### Leasing costs

Leasing costs are costs incurred by the Corporation to induce a tenant to enter into a lease for space in the properties. Leasing costs consist of five categories of costs, with accounting treatments as follows:

(i) Leasing commissions
Leasing commissions are incurred by the lessor in the negotiation and execution of leasing transactions. These costs are capitalized to investment properties and are considered in the fair value adjustment of the investment properties.

(ii) Tenant improvements
Tenant improvements are costs incurred to make leasehold improvements to the tenants' space. The costs are capitalized to investment properties and are considered in the determination of the fair value of the property.

(iii) Tenant incentives
Tenant incentives include cash payments, the buy-out of previous lease obligations, and payment of moving expenses. Tenant incentives are recognized as a receivable and amortized as a reduction of rental revenue over the initial term of the related leases.

### 3. Summary of significant accounting policies (continued)

**Leasing costs (continued)**

(iv) Rent free or lower than market rate rents
Incentives in the form of free rent or lower than market rate rent form part of the straight-line rent adjustments. The accounting of straight-line rents is described in the revenue recognition policy.

(v) Marketing costs
Marketing costs include advertising, space plans, credit checks and promotion costs. These costs are expensed as incurred in 'property operating costs'.

**Revenue recognition**

The Corporation has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue from properties includes rents from tenants under leases, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income.

Revenue from investment properties recorded in the statement of income and comprehensive income during free rent periods represents future cash receipts and is reflected on the statement of financial position in the carrying value of investment properties and recognized in the statement of income on a straight-line basis over the initial term of the lease. The Corporation also accounts for stepped rents on a straight-line basis. Rents recorded in advance of cash received are included in investment properties.

Percentage participation rents are accrued based on sales estimates submitted by tenants if the tenant anticipates attaining the minimum sales level stipulated in the tenant lease.

Recoveries of operating expenses are recognized as revenues in the period in which the corresponding costs are incurred and collectability is reasonably assured. Other rental income is recognized as revenue in the period earned and collectability is reasonably assured.

**Provisions**

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value for the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessment of the time value of money and the risks specific to the obligation. Provisions are re-measured at each statement of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

## 3. Summary of significant accounting policies (continued)

### Property operating costs

Property and operating expenses are recognized in the statement of income upon utilization of the service or at the date of their origin.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less, net of bank overdrafts.

### Participation fee

Under the terms of the Investment Services Agreement, the property manager Bentall Kennedy is entitled to a fee. The participation fee calculation is based on the Corporation's performance as it relates to a preset hurdle formula and changes in market value of investment properties.

### Financing costs

Deferred finance costs are being amortized over the term of the respective credit facility and are netted against the related financial liability.

### Assets held for sale and discontinued operations

Assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Amounts related to the disposal of non-current assets are classified as "Assets held for sale" or "assets related to discontinued operations, and the results of operations and cash flows associated with the assets disposed are reported separately as assets held for sale or discontinued operation. A non-current asset is classified as an "Asset held for sale" at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively seeking a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and is expected to be completed with a one-year period.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations
(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
(c) is a subsidiary acquired exclusively with a view to resale.

The component will have been a cash-generating unit ("CGU") or group of CGUs while being held for use. Profits and gains or losses generated from the disposal of discontinued operations are measured based on fair value less cost to sell, except for investment property which is valued at fair value and are presented in the financial statements in accordance with IRFS 5. Comparative figures are restated to reflect retrospective application of discontinued operations.

### 3. Summary of significant accounting policies (continued)

**Financial instruments and fair values**

(i) Financial assets
The Corporation's financial assets that are categorized as fair value through profit or loss consist of cash and cash equivalents. The Corporation's financial assets that are categorized as loans and receivables consist of accounts receivable.

When financial assets are initially recognized they are measured at fair value. After initial recognition, the Corporation's financial assets that are classified as loans and receivables are measured at amortized cost. Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the Corporation transfers substantially all risks and rewards of ownership.

The Corporation assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired. If there is objective evidence, such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy, the asset is tested for impairment. The amount of the loss is measured as the difference between the assets carrying amount and the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the statement of income and comprehensive income.

In relation to accounts receivable, a provision for impairment is made when there is objective evidence, such as the probability of insolvency or significant financial difficulties of the debtor, that the Corporation will not be able to collect all of the amounts due. Impaired debts are derecognized when they are assessed as uncollectible.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the statement of income and comprehensive income.

(ii) Financial liabilities
Financial liabilities are classified as fair value through profit or loss, or as other financial liabilities.

Other financial liabilities consist of payables and accruals and mortgages payable and are recognized initially at fair value and subsequently at amortized cost.

All loans and long term debt are classified as other financial liabilities within the scope of IAS 39. Initial recognition is at fair value. After initial recognition, interest-bearing loans and long term debt are measured at amortized cost using the effective interest method.

Direct transaction costs that are attributable to the issuance of financial liabilities are presented as a reduction from the carrying amount of the related debt and are amortized using the effective interest method over the term of the related debt. These costs include fees and commissions paid to agents, brokers and advisors that are incurred in connection with the arrangement of borrowings.

## 3. Summary of significant accounting policies (continued)

### Financial instruments and fair values (continued)

(ii) Financial liabilities (continued)
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

(iii) Fair value
Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The fair value hierarchy for measurement of assets and liabilities is as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

The carrying value of accounts receivable, payables and accruals are assumed to approximate their fair values because of the short period of time until the receipt or payment of cash.

Cash and cash equivalents is classified as level 1.

Mortgages payable is classified as level 2.

Investment properties are classified as level 3.

### Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

### Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In determining estimates of fair market value and net realizable values for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

## 3. Summary of significant accounting policies (continued)

### Critical accounting estimates and assumptions (continued)

The market values for investment properties reflected as at December 31, 2013 and December 31, 2012 agree to the valuations as reported by independent professional appraisers. For valuations performed more than 3 months before year end, an internal appraisal is performed as at year end and the market value is updated if appropriate. This judgement is based on management's review of changes in various metrics from the last external appraisal to December 31st including:

(i) Property tenancies
(ii) Market rents
(iii) Market terminal capitalization rates
(iv) Discount rates
(v) Direct capitalization rates
(vi) Economic environment and market conditions
(vii) Market activity

The critical estimates and assumptions underlying the valuation of the investment properties are outlined in note 6.

### Critical judgments in applying accounting policies

The following are the critical judgments that have been made in applying the Corporation's accounting policies and that have the most significant effect on the amounts in the financial statements.

The Corporation makes judgements in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property, are operating or finance leases. The Corporation has determined that all of its leases are operating leases.

In addition, the Corporation makes judgements in determining whether improvements provided to tenants as part of the tenant's lease agreement represent a capital expenditure or an incentive.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting periods.

In determining estimates of fair market value and net realizable values for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

### 3. Summary of significant accounting policies (continued)

**Critical judgments in applying accounting policies (continued)**

In addition, the computation of cost reimbursements from tenants for realty taxes, insurance and common area maintenance charges is complex and involves a number of estimates, including the interpretation of terms and other tenant lease provisions. Tenant leases are not consistent in dealing with such cost reimbursements, and variations in computations can exist.

Adjustments are made throughout the year to these cost recovery revenues based upon the Company's best estimate of the final amounts to be billed and collected.

### 4. Adoption of accounting standards in the current year

The following new and mandatory IFRS standards were adopted by the Corporation effective January 1, 2013:

**IFRS 11, "Joint Arrangements"**

Significantly all of the Corporation's operations are conducted jointly with others through a joint operation. The Corporation accounts for its share of the results of the joint operation by recognizing its proportionate interest in assets, liabilities, revenues and expenses of the joint operation.

**IFRS 12, "Disclosure of interests in other entities"**

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The standard requires the Corporation to disclose information that enables users of the financial statements to evaluate: (1) the nature of, and risks associated with, the Corporation's interests in other entities; and (2) the effects of those interests on the Corporation's financial position, financial performance and cash flows. The required disclosures are included in note 15.

**IFRS 13, 'Fair value measurement'**

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The standard became effective for annual periods beginning on or after January 1, 2013. Adoption of this standard did not materially affect the financial statements.

### 5. Future accounting policy changes

The following new and mandatory IFRS standard has been issued and will be effective for accounting periods beginning on or after January 1, 2015 and is expected to be relevant to the Corporation:

## 5. Future accounting policy changes (continued)

### IFRS 9, 'Financial instruments: Classification and measurement'

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The standard also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. The International Accounting Standards Board intends to expand IFRS 9 to add new requirements for impairment of financial assets measured at amortized cost. The Corporation is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on January 1, 2015.

### Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB issued certain amendments to IAS 32, which establishes disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on a Corporation's financial position. These amendments are effective for the Corporation's annual period beginning on January 1, 2014. The Corporation has determined that the adoption of these amendments will not have a material impact on it financial statements.

### International Financial Reporting Standards Interpretations Committee Interpretation 21 – Levies (IFRIC 21)

In May 2013, IFRIC 21 was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Corporation is yet to assess the impact the adoption of this interpretation may have on the Corporation's financial statements.

There are no other new and mandatory IFRS standards, amendments or interpretations that have been issued and will be effective for accounting periods on or after January 1, 2014 that are expected to be relevant to the Corporation.

### 6. Investment properties

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| Balance, beginning of year | $ 312,306 | $ 263,385 |
| Additions: | | |
| Acquisition | 28,858 | 75,346 |
| Capital expenditure/capitalized costs | 814 | 710 |
| Tenant incentives and commissions | 1,111 | 598 |
| Stepped rent | 84 | 426 |
| Disposals | - | (44,737) |
| Fair value gains | 5,991 | 16,578 |
| Balance, end of year | $ 349,164 | $ 312,306 |

For financial reporting periods December 31, 2013 and December 31, 2012, the Corporation has the investment properties appraised in accordance with their appraisal policy which requires that properties be appraised at least once every year by professionally qualified independent appraisers. The external appraisals are completed at the end of a six month period on approximately one half of the Corporation's portfolio. The properties that are not externally appraised during each six month period are appraised by Bentall Kennedy.

| | 2013 Market Value (000's) | 2012 Market Value (000's) |
|---|---|---|
| a) Park and Tilford Shopping Centre, North Vancouver, British Columbia | $ 65,000 | $ 65,000 |
| b) TD Creekside Corporate Centre (50% interest), Mississauga, Ontario | 40,250 | 38,450 |
| c) Centre 5735, Calgary, Alberta | 8,200 | 7,800 |
| d) 4500 Cousens Road, St. Laurent, Quebec | 5,700 | 6,000 |
| e) 4500 Chemin Bois Franc, St. Laurent, Quebec | 4,900 | 5,300 |
| f) Faubourg Bois Franc, St. Laurent, Quebec | 15,900 | 16,100 |
| g) Vintage Park, Calgary, Alberta | 19,000 | 17,900 |
| h) 10201 Jasper Avenue (20% interest), Edmonton, Alberta | 11,480 | 11,200 |
| i) 10303 Jasper Avenue, (20% interest), Edmonton, Alberta | 32,400 | 30,400 |

## 6. Investment properties (continued)

| | | |
|---|---|---|
| j) 10 Dundas Street East, (15% interest), Toronto, Ontario | **38,310** | 38,685 |
| k) Kaplan Industrial Portfolio, Montreal, Quebec | **25,165** | 24,967 |
| l) 550 Burrard Street, (12.5% interest), Vancouver, British Columbia | **54,000** | 50,504 |
| m) Argentia Industrial Portfolio, Mississauga, Ontario | **28,859** | - |
| | **$ 349,164** | $ 312,306 |

The Corporation determined the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable statement of financial position dates, less future cash outflow pertaining to the respective leases. The properties are appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization income method and a direct comparison approach. The discounted cash flow analysis is primarily based on discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

The significant assumptions made relating to valuations of investment properties using discounted cash flow analysis and direct capitalization income method were:

| | **2013** | 2012 |
|---|---|---|
| Maximum capitalization rate | **7.25%** | 7.25% |
| Minimum capitalization rate | **4.75%** | 4.25% |
| Weighted average capitalization rate | **5.77%** | 5.82% |

Included in investment properties is $2,129,016 (2012 - $2,044,460) of net straight-line rent arising from the recognition of rental revenue.

## 7. Discontinued operations

On December 19, 2013, the Corporation completed the sale of Bayview Chateau and White Rock Gardens which represented their residential portfolio for gross proceeds of $18 million and related selling costs of $608,565.

## 7. Discontinued operations (continued)

### Statement of financial position

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| **Assets** | | |
| Non-current | | |
| Investment properties | $ - | $ 16,190 |
| Current | | |
| Accounts receivable | 15 | 5 |
| Prepaid expenses | 9 | 10 |
| | 24 | 15 |
| **Total assets** | $ 24 | $ 16,205 |
| **Liabilities** | | |
| Non-current | | |
| Mortgages payable | $ - | $ 3,675 |
| Current | | |
| Mortgages payable | - | 136 |
| Accounts payable | 53 | 113 |
| | 53 | 249 |
| **Total liabilities** | $ 53 | $ 3,924 |

### Statements of income and comprehensive income

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| Rental income | $ 1,054 | $ 1,137 |
| Property operating costs | (568) | (590) |
| Net operating income | 486 | 547 |
| Mortgage interest | (135) | (179) |
| Net property income | 351 | 368 |
| Increase in fair value of investment properties | - | 1,272 |
| Gain on sale of investment properties | 1,118 | - |
| Net income and comprehensive income from discontinued operations | $ 1,469 | $ 1,640 |

## 7. Discontinued operations (continued)

### Statement of cash flow

| | | 2013 (000's) | | 2012 (000's) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Income and comprehensive income from discontinued operations | $ | 1,469 | $ | 1,640 |
| Adjustments to reconcile income to net cash flows | | | | |
| Mortgage interest | | 135 | | 179 |
| Gain on sale of investment properties | | (1,118) | | - |
| Increase in fair value of investment properties | | - | | (1,272) |
| Net changes in non-cash operating items | | | | |
| Accounts receivable | | (10) | | (3) |
| Prepaid expenses | | 1 | | (2) |
| Payables and accruals | | (49) | | 38 |
| Cash and cash equivalents provided by operating activities | | 428 | | 580 |
| **Financing activities** | | | | |
| Dividends paid | | (9,210) | | - |
| Repayment of mortgage payable | | (3,821) | | (116) |
| Interest paid | | (145) | | (184) |
| Deferred financing costs | | - | | (11) |
| Cancellation of common shares | | (4,390) | | - |
| Cash and cash equivalents used in financing activities | | (17,566) | | (311) |
| **Investing activities** | | | | |
| Additions to investment properties | | (74) | | (268) |
| Proceeds from disposition of investment properties | | 17,391 | | - |
| Cash and cash equivalents provided by (used in) investing activities | | 17,317 | | (268) |
| Net increase in cash and cash equivalents from discontinued operations | $ | 179 | $ | 1 |

### 8. Mortgages payable

| | | 2013 (000's) | | 2012 (000's) |
|---|---|---|---|---|
| (a) Park and Tilford Shopping Centre, North Vancouver, British Columbia. Mortgage, held by The Great-West Life Assurance Company, repayable in monthly installments of $131,657, including interest calculated at a rate of 5.215% per annum, maturing 1 September 2020, secured by a first mortgage on freehold land and improvements, a first-ranking general assignment of leases and/or rents, first ranking specific assignments, and a security agreement. | $ | **16,292** | $ | 17,011 |
| (b) TD Creekside Corporate Centre, Mississauga, Ontario. Mortgage (50% interest), held by Metropolitan Life Insurance Company, repayable in monthly Installments of $115,194, including interest calculated at a rate of 5.71% per annum, maturing 1 July 2014, secured by a freehold first mortgage and charge on the property, a general security agreement, a first general assignment of rents, a first specific assignment of a tenant lease. | | **14,308** | | 14,866 |
| (c) Centre 5735, Calgary, Alberta. Mortgage, held by Equitable Life, repayable in monthly installments of $26,630, including interest at a rate of 5.28% per annum, maturing 1 December 2016, secured by a mortgage and charge on the property, and a general security agreement. | | **3,724** | | 3,845 |
| (d) Faubourg Bois Franc, St. Laurent, Québec. Mortgage, held by CIBC Mortgages Inc., repayable in monthly installments of $57,238, including interest calculated at a rate of 5.00% per annum, maturing 1 September 2017, secured by a first hypothec for registration against title to the properties in the amount of $10,725,000, a general immovable hypothec of rents being a first priority interest in rents payable and the insurance indemnities on such rents, a movable hypothec of the lease(s), and a movable hypothec in the amount of $10,725,000 being a first priority interest in all present and future personal or movable property corporeal or incorporeal of the Borrower. | | **9,584** | | 9,791 |
| (e) 10201 Jasper Avenue, Edmonton, Alberta. Mortgage (20% interest), held by the Standard Life Assurance Company of Canada, repayable in monthly installments of $33,491, including interest calculated at a rate of 6.50% per annum, maturing 1 July 2019, secured by a first mortgage, the general assignment of rents and leases, a specific assignment of leases and a general security agreement. | | **4,587** | | 4,691 |

## 8. Mortgages payable (continued)

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| (f) 10303 Jasper Avenue, Edmonton, Alberta. Mortgage (20% interest), held by The Great-West Life Assurance Company, two mortgages: the first repayable in monthly installments of $29,835, including interest calculated at a rate of 4.159% per annum, maturing 31 December 2017; the second, an interest payment only mortgage, with monthly interest payments of $25,919 calculated at a rate of 5.639% per annum, maturing 31 December 2017. The first mortgage is secured by a pari-passue first mortgage on freehold land and improvements, first ranking general assignment of leases and/or rents of the lands, assignments of leases including specific assignment of major tenant leases. | **10,752** | 10,894 |
| (g) 10 Dundas Street East, Toronto, Ontario. Mortgage (15% interest), held by CDPQ Mortgage Investment Corporation, repayable in monthly installments of $96,226, including interest calculated at a rate of 5.344% per annum, maturing 1 April 2021; secured by a first mortgage, the general assignment of rents and leases, a specific assignment of leases and a general security agreement. | **13,966** | 14,371 |
| (h) 550 Burrard Street, Vancouver, British Columbia. Mortgage (12.5% interest), held by Royal Bank of Canada, repayable in monthly installments of $132,432, including interest calculated at a rate of 4.044% per annum, maturing 1 June 2022; secured by a first mortgage, the general assignment of rents and leases, a specific assignment of leases and a general security agreement. | **24,161** | 24,768 |
| (i) 2875, 2885, 2895, 2905 and 2915 Argentia Road, Mississauga, Ontario. Mortgage, held by The Great-West Life Assurance Company, repayable in monthly installments of $104,987, including interest calculated at a rate of 5.623% per annum, maturing 1 January 2018; secured by a first mortgage, the general assignment of rents and a general security agreement. | **14,800** | - |
| | **112,174** | 100,237 |
| Add: fair value adjustments (a) | **1,200** | - |
| Less: deferred financing costs | **(224)** | (238) |
| Mortgage payables | **113,150** | 99,999 |
| Less: current portion | **(3,474)** | (2,963) |
| Long-term portion | **$ 109,676** | $ 97,036 |

(a) Mortgage assumed on the acquisition of the Argentia Industrial Portfolio has been adjusted to fair value by discounting the future cash flows of the debt using the market rate of interest in effect at the time of acquisition. The Corporation is of the opinion that the rate used corresponds to that which they would have been able to obtain for loan with similar maturity date and term. This fair value debt adjustment is amortized to mortgage interest expense over the remaining life of the debt.

## 8. Mortgages payable (continued)

The mortgages payable are secured by certain real property, bear interest at rates ranging from 4.044% to 6.50% and are payable as follows:

| | | (000's) |
|---|---|---|
| 2014 | $ | 3,208 |
| 2015 | | 16,982 |
| 2016 | | 3,168 |
| 2017 | | 25,268 |
| 2018 | | 15,188 |
| Thereafter | | 48,360 |
| | $ | 112,174 |

## 9. Dividends payable

Dividends are payable on a resolution of the Board to the holder of common shares on a quarterly basis based on the net income for the quarter, less reasonable reserves as determined by Bentall Kennedy.

## 10. Share capital

**Authorized:**

Unlimited number of common shares without par value.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Number** | | **Amount (000's)** | Number | | Amount (000's) |
| Opening balance | 16,435,100 | $ | 164,351 | 13,285,100 | $ | 132,851 |
| Purchase of shares for cancellation | (439,000) | | (4,390) | (2,161,000) | | (21,610) |
| Issuance of new shares | 947,800 | | 9,478 | 5,311,000 | | 53,110 |
| | 16,943,900 | $ | 169,439 | 16,435,100 | $ | 164,351 |

The common shares have a dividend equal to the annual net cash flow of the Corporation derived from real property and all other investments as defined. On January 15, 2013, the Corporation issued 947,800 common shares for $10 per share to fund the acquisition of the Argentia Industrial Portfolio. On December 20, 2013, the Corporation redeemed for cancellation 439,000 common shares as a result of the sale of Bayview Chateau and White Rock Gardens.

## 11. Rental income

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| Rents charged: | | |
| Base rent | $ 19,146 | $ 17,272 |
| Lease cancellation fees | 101 | - |
| Fees and other income | 1,374 | 1,414 |
| | 20,621 | 18,686 |
| Adjustments to rental revenue: | | |
| Amortization of tenant inducements | (229) | (216) |
| Straight-line rent adjustments | 84 | 426 |
| | $ 20,476 | $ 18,896 |

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| Not later than 1 year | $ 18,744 | $ 16,664 |
| Later than 1 year and not longer than 5 years | 59,207 | 50,017 |
| Later than 5 years | 22,645 | 26,039 |
| Total | $ 100,596 | $ 92,720 |

The Corporation leases out its investment properties under operating leases with terms ranging from five years to fifteen years.

## 12. Property operating costs

Property operating costs consist of:

| | 2013 (000's) | 2012 (000's) |
|---|---|---|
| Elevator, HVAC and plumbing | $ 384 | $ 483 |
| Exterior grounds | 719 | 625 |
| General administrative | 622 | 590 |
| Insurance | 199 | 169 |
| Janitorial | 536 | 571 |
| Management fees | 885 | 802 |
| Miscellaneous | 129 | 94 |
| Non-recoverable property expenses | 501 | 466 |
| Parking lot | 399 | 308 |
| Property taxes | 5,835 | 5,163 |
| Repairs and maintenance | 460 | 346 |
| Security | 422 | 416 |
| Utilities | 1,223 | 1,243 |
| | $ 12,314 | $ 11,276 |

## 13. Related party transactions

During the year, charges of $3,954,701 (2012 - $4,964,697) were incurred for services from Bentall Kennedy, a related party, in accordance with the management contract. These amounts are incurred in the normal course of business and are measured at the amount of consideration established and agreed to by the related parties.

These amounts are charged in these financial statements to investment properties, operating expenses, asset management fees and participation fees.

## 14. Management of capital

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and debt less cash and cash equivalents. The Corporation's objective when managing capital is to ensure that the Corporation will continue as a going concern so that it can sustain daily operations and provide adequate returns to its shareholders.

The Corporation is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced or may not be refinanced on a favourable terms or with interest rates as favourable as those of the existing debt. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the Corporation as at December 31, 2013 and December 31, 2012, is summarized below:

| | **2013 (000's)** | 2012 (000's) |
|---|---|---|
| Mortgages payable | $ **112,174** | $ 100,237 |
| Cash and cash equivalents | **(5,208)** | (4,694) |
| Net debt | **106,966** | 95,543 |
| Equity | **235,981** | 227,134 |
| Total managed capital | $ **342,947** | $ 322,677 |

### 15. Investments in joint operations

The Corporation's interests in the following properties are subject to joint control and, accordingly, the Corporation has recorded its share of the assets, liabilities, revenue and expenses of the properties in these financial statements:

| Name of property | Principal activity | Principal place of business | Proportion of ownership interest and voting rights held by the Corporation 2013 | 2012 |
|---|---|---|---|---|
| Enbridge Tower | Income producing property | Edmonton | **20.0%** | 20.0% |
| Canadian Western Bank Place | Income producing property | Edmonton | **20.0%** | 20.0% |
| TD Creekside | Income producing property | Mississauga | **50.0%** | 50.0% |
| 10 Dundas Street East | Income producing property | Toronto | **15.0%** | 15.0% |
| 550 Burrard Street | Income producing property | Vancouver | **12.5%** | 12.5% |

### 16. Financial instruments and risk management

The Corporation's financial assets and liabilities are comprised of accounts receivable, cash and cash equivalents, mortgages payable, payables and accruals, dividends payable and security deposits and prepaid rent. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows:

**Fair value of financial assets and liabilities**

The fair values of accounts receivable, cash and cash equivalents, qne payables and accruals, approximate their carrying value due to the short-term maturity of those instruments. The fair values of mortgages payable are based on the current market conditions for financing loans with similar terms and risks.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2013 market rates for debts of similar terms (Category Level 2). Based on these assumptions, the fair value of the mortgages payable is estimated at:

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## 16. Financial instruments and risk management (continued)

**Fair value of financial assets and liabilities (continued)**

| | 2013 Market Value (000's) | 2012 Market Value (000's) |
|---|---|---|
| (a) Park and Tilford Shopping Centre, North Vancouver, British Columbia. | $ 17,228 | $ 18,488 |
| (b) TD Creekside Corporate Centre, Mississauga, Ontario (50% interest). | 14,308 | 15,472 |
| (c) Centre 5735, Calgary, Alberta. | 3,960 | 4,132 |
| (d) Faubourg Bois Franc, St. Laurent, Québec. | 10,107 | 10,523 |
| (e) 10201 Jasper Avenue, Edmonton, Alberta (20% interest). | 5,132 | 5,452 |
| (f) 10303 Jasper Avenue, Edmonton, Alberta (20% interest). | 10,897 | 11,114 |
| (g) 10 Dundas Street East, Toronto, Ontario (15% interest). | 14,790 | 15,811 |
| (h) 550 Burrard Street, Vancouver, British Columbia (12.5% interest). | 23,565 | 24,768 |
| (i) 2875, 2885, 2895, 2905 and 2915 Argentia Road, Mississauga, Ontario. | $ 16,299 | $ - |
| Fair value of mortgage payables | $ 116,286 | $ 105,760 |

## 16. Financial instruments and risk management (continued)

### Risks associated with financial assets and liabilities

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk. The Corporation's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation aims to develop a disciplined control environment in which all employees understand their roles and obligations.

### (a) Market risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices comprises the following:

*Interest rate risk*

The Corporation is subject to the risks associated with debt financing; including the risk that credit facilities will not be refinanced on terms as favourable as those of the existing indebtedness. For the year ended December 31, 2013, the increase / decrease in annual net income for each one percent change in interest rates on the Corporation fixed rate debt amounts to $1,134,509 / $1,146,034 (2012 - $869,220 / $876,925).

The Corporation's objective of managing interest rate risk is to minimize the volatility of the Corporation's income. As at December 31, 2013, interest rate risk has been minimized, as the mortgage payables are financed at fixed interest rates.

### (b) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. A substantial portion of the Corporation's amounts receivable is with retail tenants and individuals and is subject to normal industry credit risks.

The objective of managing credit risk is to mitigate exposure through the use of approved credit policies governing the Corporation's credit practices that limit transactions according to counterparties' credit quality.

The carrying amount of amounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income within property operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of income.

## 16. Financial instruments and risk management (continued)

### Risks associated with financial assets and liabilities (continued)

### (c) Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation will be subject to the risks associated with debt financing, including the risk that credit facilities will not be able to be refinanced. The Corporation's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage on its real estate assets. At December 31, 2013, the Corporation was holding cash and cash equivalents of $5,208,268 (December 31, 2012 - $4,694,336) and had $Nil undrawn lines of credit available to it.

### (d) Environmental risk

The Corporation is subject to various Canadian laws relating to the environment. The Corporation has formal policies and procedures dealing with limiting environmental exposures which are administered by the Manager. Costs related to environmental risk are mitigated by carrying environmental insurance. There is an exposure to financial risks arising from environmental factors which could cause a variation in earnings to the extent that costs may exceed such coverage.

## 17. Comparative figures

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