

Hamilton Waterfront Trust
Consolidated Financial Statements
For the year ended December 31, 2017

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Consolidated Financial Statements
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Independent Auditor's Report

To the Board of Directors of Hamilton Waterfront Trust

We have audited the accompanying consolidated financial statements of Hamilton Waterfront Trust (the "Organization"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of operations and changes in net assets (deficiency) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
July 26, 2018


Hamilton Waterfront Trust Consolidated Statement of Financial Position

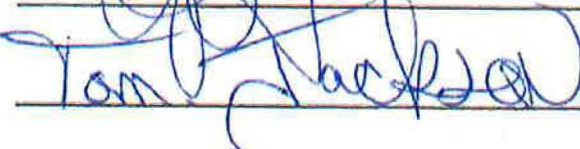
| December 31 | 2017 | 2016 |
|----------------------------------|---------------------|---------------------|
| Assets | | |
| Current | | |
| Cash | \$ 220,558 | \$ 130,458 |
| Accounts receivable (Note 2) | 347,246 | 233,187 |
| Inventories and prepaid expenses | 29,942 | 26,048 |
| | 597,746 | 389,693 |
| Capital assets (Note 3) | 2,419,936 | 2,574,527 |
| | \$ 3,017,682 | \$ 2,964,220 |

Liabilities and Net Assets (Deficiency)

| | | |
|--|---------------------|---------------------|
| Current | | |
| Accounts payable and accrued liabilities | \$ 957,711 | \$ 666,946 |
| Current portion of deferred capital contributions (Note 4) | 69,298 | 71,593 |
| Deferred revenue - City of Hamilton | 444,498 | - |
| | 1,471,507 | 738,539 |
| Deferred capital contributions (Note 4) | 2,158,964 | 2,225,967 |
| | 3,630,471 | 2,964,506 |
| Net assets (deficiency) | (612,789) | (286) |
| | \$ 3,017,682 | \$ 2,964,220 |

On behalf of the Board:


 _____ Director


 _____ Director

Hamilton Waterfront Trust Consolidated Statement of Operations and Changes in Net Assets (Deficiency)

| For the year ended December 31 | 2017 | 2016 |
|--|---------------------|------------------|
| Revenue | | |
| Investment income | \$ 14,547 | \$ 47,467 |
| HST and GST rebate | - | 71,544 |
| City of Hamilton contract and management income | 103,558 | 68,029 |
| Other income | 37,610 | 43,143 |
| Hamiltonian Tour Boat | 35,199 | 43,576 |
| Williams Fresh Cafe | 1,466,079 | 1,525,872 |
| Hamilton Scoops | 167,053 | 160,294 |
| Hamilton Trolley | 41,681 | 58,377 |
| Fishing Derby | 2,188 | - |
| HHQ management fee | - | 10,200 |
| Waterfront Grill | 60,669 | 58,206 |
| HWT Centre | 258,845 | 424,176 |
| Outdoor Ice Rink | 303,450 | 279,289 |
| Skate Rental | 90,741 | 89,613 |
| Waterfront Development, City of Hamilton management contract | 668,624 | 492,289 |
| Waterfront Wheels | 16,510 | 12,005 |
| Tall Ships | 93,070 | - |
| | 3,359,824 | 3,384,080 |
| Expenses | | |
| Advertising and promotion | 340 | 978 |
| Bank charges | 10,803 | 10,441 |
| Building expenses | 12,926 | 11,349 |
| Dues and memberships | 2,124 | 1,040 |
| Equipment expenses | 3,490 | 3,403 |
| Insurance | 9,948 | 13,765 |
| Office expenses | 15,610 | 15,302 |
| Professional fees | 49,374 | 49,771 |
| Salaries and benefits | 294,415 | 282,690 |
| Telephone | 9,066 | 7,740 |
| Travel | 472 | 2,551 |
| Other expenses | 14,230 | 21,780 |
| Hamiltonian Tour Boat | 28,604 | 27,275 |
| Williams Fresh Cafe | 1,368,048 | 1,471,483 |
| Hamilton Scoops | 119,685 | 121,487 |
| Hamilton Trolley | 47,462 | 62,135 |
| Fishing Derby | 14,389 | 16,700 |
| Waterfront Grill | 68,213 | 63,799 |
| HWT Centre | 413,581 | 345,187 |
| Outdoor Ice Rink | 303,000 | 279,372 |
| Skate Rental | 41,625 | 41,919 |
| Waterfront Development, City of Hamilton management contract | 668,624 | 492,289 |
| Waterfront Wheels | 11,769 | 13,156 |
| Tall Ships | 64,941 | - |
| | 3,572,739 | 3,355,612 |
| Excess of revenue (deficiency) over expenses before amortization and other revenue (expenses) | (212,915) | 28,468 |
| Other revenue (expenses) | | |
| Amortization of capital assets | (176,489) | (233,759) |
| Amortization of deferred capital contributions | 69,298 | 71,593 |
| Bad debts associated with tenant dispute | (156,274) | - |
| Legal fees associated with tenant dispute | (136,123) | (96,638) |
| | (399,588) | (258,804) |
| Deficiency of revenue over expenses for the year | (612,503) | (230,336) |
| Net assets (deficiency), beginning of year | (286) | 230,050 |
| Net assets (deficiency), end of year | \$ (612,789) | \$ (286) |

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Waterfront Trust Consolidated Statement of Cash Flows

| For the year ended December 31 | 2017 | 2016 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| Deficiency of revenue over expenses for the year | \$ (612,503) | \$ (230,336) |
| Adjustments to reconcile deficiency of revenue over expenses to net cash provided by operating activities | | |
| Amortization of capital assets | 176,489 | 233,759 |
| Amortization of deferred capital contributions | (69,298) | (71,593) |
| Changes in non-cash working capital balances | | |
| Accounts receivable | (114,059) | 86,168 |
| Inventories and prepaid expenses | (3,894) | 3,966 |
| Accounts payable and accrued liabilities | 290,765 | 93,781 |
| Deferred revenue | 444,498 | - |
| | 111,998 | 115,745 |
| Cash flows from investing activity | | |
| Purchase of capital assets | (21,898) | - |
| | 90,100 | 115,745 |
| Increase in cash during the year | | |
| Cash, beginning of year | 130,458 | 14,713 |
| Cash, end of year | \$ 220,558 | \$ 130,458 |

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Waterfront Trust

Notes to Consolidated Financial Statements

December 31, 2017

1. Significant Accounting Policies

Nature of Business

The purpose of the Hamilton Waterfront Trust (the "Organization") is to improve and develop lands around the Hamilton Harbour and to encourage the local community to enjoy the Bay area. Hamilton is a culturally and ethnically diversified mosaic. Therefore, the Organization helps to promote the image of Hamilton to businesses and individuals over a wide radius.

Following a strategic review undertaken by the Board of Directors, it was decided to restructure the Organization to become a not-for-profit organization effective November 21, 2016. As part of the reorganization on that same date, HWT Inc., a wholly-owned subsidiary, was incorporated.

The Organization is incorporated under the Ontario Corporations Act as a not-for-profit organization under the Income Tax Act (Canada), and, as such, is exempt from income taxes.

Basis of Accounting and Presentation

The consolidated financial statements of the Organization have been prepared using Canadian accounting standards for not-for-profit organizations.

These consolidated financial statements include the accounts of the Organization and HWT Inc. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions.

Unrestricted revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Deferred capital contributions related to capital assets represent the unamortized and unallocated amount of grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

The Organization recognizes all other revenue when services are performed or goods are sold, there is no uncertainty as to the customer acceptance, the price to the buyer is fixed or determinable and collection is reasonably assured.

Hamilton Waterfront Trust

Notes to Consolidated Financial Statements

December 31, 2017

1. Significant Accounting Policies (Continued)

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following methods and rates or terms:

| | | |
|-------------------------|---|--|
| Boat | - | 15 years straight-line |
| Building | - | 5% declining balance |
| Computer equipment | - | 30% declining balance |
| Dock | - | 5% declining balance |
| Furniture and equipment | - | 20% declining balance |
| Trolleys | - | 15 years straight-line |
| Leasehold improvements | - | straight-line over the term of the lease |

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. Subsequently, financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

2. Accounts Receivable

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Trade accounts receivable | \$ 695,319 | \$ 424,986 |
| Impairment allowance | (348,073) | (191,799) |
| | <u>\$ 347,246</u> | <u>\$ 233,187</u> |

Hamilton Waterfront Trust Notes to Consolidated Financial Statements

December 31, 2017

3. Capital Assets

| | 2017 | | 2016 | |
|-------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Boat | \$ 52,157 | \$ 35,088 | \$ 52,157 | \$ 31,611 |
| Building | 17,016 | 7,017 | 17,016 | 6,491 |
| Computer equipment | 42,844 | 40,622 | 42,844 | 39,669 |
| Dock | 15,522 | 7,614 | 15,522 | 7,198 |
| Furniture and equipment | 206,651 | 158,113 | 206,651 | 145,973 |
| Trolleys | 298,844 | 146,263 | 276,946 | 117,946 |
| Leasehold improvements | 3,610,933 | 1,429,314 | 3,610,933 | 1,298,654 |
| | \$ 4,243,967 | \$ 1,824,031 | \$ 4,222,069 | \$ 1,647,542 |
| Net book value | | \$ 2,419,936 | | \$ 2,574,527 |

4. Deferred Capital Contributions

Restricted capital contributions are amortized on the same basis as the underlying capital assets.

| | 2017 | 2016 |
|---|---------------------|--------------|
| Balance , beginning of year | \$ 2,297,560 | \$ 2,369,153 |
| Less: contributions recognized as revenue | (69,298) | (71,593) |
| | 2,228,262 | 2,297,560 |
| Less: current portion | (69,298) | (71,593) |
| Balance , end of year | \$ 2,158,964 | \$ 2,225,967 |

5. Commitments

The Organization leases a premise at an annual rent of \$33,500 plus applicable taxes that expires on October 31, 2019.

Future minimum payments under the operating lease are as follows:

| | |
|------|-----------|
| 2018 | \$ 33,500 |
| 2019 | 27,917 |

Hamilton Waterfront Trust

Notes to Consolidated Financial Statements

December 31, 2017

6. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations. The Organization's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable balances. This risk has not changed from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization will not have sufficient funds to settle a transaction on a due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from the Organization's accounts payable and accrued liabilities. This risk has not changed from the prior year.

7. Subsequent Event

Effective January 1, 2018, the Organization's lease on the Parks Discovery Centre with the City of Hamilton was terminated. In consideration of the Organization entering into this arrangement, the City of Hamilton has agreed to pay an early surrender fee in the amount of \$3,067,570 of which \$405,421 will be used to satisfy the Organization's obligation with respect to unpaid realty taxes. The balance will be paid equally over 15 years.