Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

CPA Professional Program Exams – Sample Case and Illustrative Response

CPA Core - Licensure

Seaway Property Management Limited

The sample examination questions provided in this package are intended to offer a general indication of the format, structure, and nature of questions that candidates may encounter. While these materials have been developed with careful consideration and are intended to be broadly representative, they are not exhaustive and cannot capture the full range of possible question variations. These samples should therefore be used as a guide rather than a definitive representation.

Seaway Property Management Limited (Suggested Time: 120 minutes)

Headquartered in Ottawa, Seaway Property Management Limited (Seaway) provides property management services in major cities in Canada, as well as three smaller communities near Ottawa: Brockville, Kingston, and Smiths Falls (Appendix I). Seaway provides services to condominium boards, commercial properties, residential landlords, and the short-term rental market. Seaway earns revenue primarily through management fees, service contracts, and supplementary services provided to property owners.

Seaway is a private corporation majority-owned by a Canadian private equity fund. It prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) to meet shareholder and lender reporting requirements.

It is January 26, 2026, and you, CPA, are a senior auditor at Rowe LLP, a national public accounting firm that has audited Seaway for the past three years without issue. You have been assigned to Seaway's financial statement audit for the year ended December 31, 2025. Your first assigned task is to prepare the audit planning memo and to analyze any accounting issues you identify in your review of the preliminary material provided.

During 2024, Seaway's operations grew, leading to an increase in the number of employees. Effective January 1, 2025, Seaway began outsourcing payroll services to a third-party payroll service provider, Cedar Ridge Payroll Services (Cedar). Cedar is responsible for processing and calculating payroll and producing payroll reports based on the information provided by Seaway. Seaway no longer performs detailed recalculations of payroll amounts internally and instead relies on payroll registers and summary reports generated by Cedar for recording payroll expenses in the general ledger. Yesterday, Seaway's new controller, Robert, sent an email to you and your audit manager, Sydney, about reports received from Cedar (Appendix II). After reading the email, Sydney emailed you separately asking you to include in the audit plan a discussion on whether to rely on the System and Organization Controls (SOC) reports and any procedures needed for the exception identified in the Type 2 report, assuming reliance is placed on the reports.

During an audit team meeting, Robert explained that senior management, the board of directors, and investors are now reviewing certain key performance indicators (KPIs) deemed increasingly important. The board and investors have voiced that they would like audit-level assurance on whether the KPI targets are being achieved (Appendix III). After the meeting, Sydney asked you to prepare a memo describing possible assurance engagements on the KPIs that could meet the interested parties' needs. She also asked that you suggest audit procedures that could be performed on the KPI results reported to the board to ensure they are accurate and that each measure represents the spirit of the target.

As you review the draft financial statements, you are left wondering whether the segmented reporting note disclosure is appropriate in the circumstances (Appendix IV).

Finally, you just received an email from Sydney outlining tax-related questions that arose during her recent discussions with management (Appendix V).

Sydney asks you to prepare a report that addresses all the issues identified.

Appendix I

Geographic Performance and Resource Allocation

Beginning in 2025, Seaway's leadership team shifted from managing operational performance by service line to reviewing financial and operational performance primarily on a geographic basis. Management believes that evaluating revenue and operating income results by city provides the most meaningful insight into business performance and risk management.

A quarterly reporting package is prepared for the chief executive officer and the board of directors. It includes revenue, operating income, and total assets by major city. These geographic results are used to assess performance and make decisions regarding capital allocation, staffing levels, and market participation.

During 2025, continued operating losses and poor market conditions in Calgary led the board to approve a plan to exit the market (Appendix VI).

City	Revenue ($000)	Operating Income ($000)	Total Assets ($000)
Ottawa	27,890	3,680	32,150
Toronto	22,100	3,090	15,600
Vancouver	15,800	2,055	11,000
Calgary	8,150	(840)	3,000
Brockville	1,200	290	190
Kingston	900	180	170
Smiths Falls	400	50	100
Total	**76,440**	**8,505**	**62,210**

In 2026, management is planning on piloting a new revenue stream. Seaway plans to purchase several commercial buildings in the Ottawa area, earning rental revenue for the first time. Management has approached new lenders for the financing to purchase the buildings. The lenders have asked for a copy of the audited financial statements.

Appendix II
Email from Controller about Cedar Reports

From: robert@seaway.ca
Sent: January 25, 2026
To: You, CPA; Sydney, CPA
Subject: Do you need this?
Attachments:

System and Organization Controls Type 1.pdf

System and Organization Controls Type 2.pdf

Hi,

Attached are two reports that Cedar sent to me. The SOC Type 1 report is dated July 31, 2024. The SOC Type 2 report covers the period of November 1, 2024, to October 31, 2025. I assume you need these?

While the audit opinion in the Type 1 report was unqualified, I noticed a potential issue in the Type 2 report (see screenshot from page 62 below).

Control Number	Control Description	Tests of Controls Performed by Auditor	Results of Tests
PP-AC-07	Cedar requires that all changes to employee payroll master data be reviewed and approved by an authorized supervisor prior to processing.	Selected a sample of payroll master data changes processed during the period and inspected system logs and approval records to determine whether changes were reviewed and approved by an authorized supervisor prior to processing.	**Exception noted.** For the first payroll period in October 2025, payroll master data changes were processed without evidence of approval. This occurred due to a temporary system misconfiguration issue that bypassed the approval workflow. Management indicated payroll changes were subsequently reviewed and no issues were found.

Thanks,
Robert

Appendix III
Key Performance Indicators and Targets

Performance is now evaluated using the following KPIs and related targets. Results are being presented to the board annually for discussion.

1) KPI: Operating Margin – 13.9% (Target: 12%)

Operating margin is calculated as operating income divided by total revenue based on consolidated financial information.

2) KPI: Client Satisfaction Score – 95% (Target: 90%)

The score is tabulated from electronic surveys distributed to all active clients on December 31 of each year. The score reflects the percentage of respondents who rated their overall experience as “satisfied” or “very satisfied.”

3) KPI: Corporate Office Energy Consumption – Decrease of 9% (Target: Decrease of 5%)

Energy usage is measured based on electricity expense in the general ledger for each of Seaway’s corporate office locations. The decrease reflects reduced office occupancy due to hybrid work arrangements and the installation of energy-efficient lighting in select locations.

4) KPI: Reported Workplace Incidents – 3 (Target 0)

Workplace incidents are defined as events reported to human resources that result in medical attention or lost time.

Appendix IV
Excerpt from Draft Financial Statements Note Disclosures

Reporting Segments

Seaway has elected to apply IFRS 8 and has identified its reportable segments based on the nature of services provided. Corporate administrative costs are allocated to segments based on revenue proportions.

Year Ended December 31, 2025

Service Line	**Revenue ($000)**	**Operating Income ($000)**
Condominium management	28,500	3,650
Commercial property management	24,200	2,910
Residential property management	15,940	1,650
Short-term rental management	7,800	295
Total	**76,440**	**8,505**

Appendix V
Email from Audit Manager about Tax Issues

From: sydneycarson@rowe.ca
Sent: January 24, 2026
To: CPA
Subject: Tax Questions

Hello,

Seaway management raised several tax concerns in a meeting today. Please prepare a draft response. It will be reviewed by an independent tax team that will officially respond to management.

Calgary Operations

The Calgary building and equipment are expected to be sold later this year. Management would like to know the tax implications of the disposition.

	Adjusted Cost Base (ACB)	**Undepreciated Capital Cost (UCC)**	**Notes**
Building and land	Building: $2,400,000 Land: $800,000	Building: $2,200,000 Land: N/A	The Calgary office is the only one owned by Seaway; all other offices are leased. The building's net book value is $1,855,000, and the land's net book value is $800,000.
IT equipment	$200,000	In a CCA class with a UCC balance of $350,000. The portion related to the Calgary equipment is $150,000.	Expected to sell for approximately $120,000 through auction.

Management also asked whether GST would apply to this sale and whether it would be considered a sale of a business for GST purposes, and if any special GST rules or elections exist that may be relevant.

Appendix V (continued)
Email from Audit Manager about Tax Issues

GreenScape Services

On September 1, 2025, Seaway acquired 55% of the voting shares of GreenScape Inc. (Green), Seaway's major landscaping and snow removal supplier and a Canadian-controlled private corporation (CCPC). Green has a March 31 year-end. At the acquisition date, Green had:

- non-capital loss carryovers of $400,000;
- net capital loss carryovers of $80,000;
- UCC balances across various CCA classes totalling $600,000; and
- publicly traded shares with a fair market value of $250,000 and an original cost of $180,000.

Management has also indicated that, at the acquisition date, the estimated fair value of certain depreciable assets was $12,000 lower than their related tax UCC balances. Management would like to understand the implications of this on both Seaway and Green. The accounting implications of the Greenspace acquisition have already been addressed as part of the audit.

Thanks,
Sydney

Appendix VI
Management's Preliminary Assessment of the Calgary Exit

In early 2025, we undertook a strategic review of Seaway's operations and identified that Calgary was consistently underperforming relative to other cities. Although revenue from Calgary was historically comparable to other major markets and used to represent a significant portion of our managed properties, it has generated operating losses for the past two years, driven by higher vacancy rates, increased competition, and rising operating costs.

On July 15, 2025, the board of directors approved a formal plan to exit the Calgary market. Effective immediately, we ceased accepting new clients in Calgary, provided the required three-month cancellation notice for all property management contracts, and notified employees of the planned exit.

By November 2025, the Calgary office had been vacated, and we engaged an external real estate broker to market the property for sale. There were initial disagreements between us and the broker regarding the listing price; however, a compromise was reached to list the office for $4 million (of which $3 million would be allocated to the building and $1 million allocated to the land), subject to a 5% sales commission. We received an offer in December 2025 for 4% below the asking price. We rejected this offer and are currently awaiting further offers.

The Calgary office also contained IT equipment (computer hardware and networking equipment, which is primarily a mail server currently being used for our corporate email system). In December 2025, we shipped the IT equipment back to Ottawa and listed it for sale through an auction platform with a minimum bid of $50,000. The auction is scheduled to close in February 2026. We are confident that all email systems will be fully transferred to other servers located in Ottawa by the time the auction closes. The manager of the Calgary operations was transferred to our Ottawa location.

Since no assets were sold prior to year end, no accounting adjustments or reclassifications have been made.

Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

Seaway Property Management Limited (Seaway)
Illustrative Response

This illustrative response does not represent a sample response completed under exam conditions but rather illustrates the main points relevant to a complete response.

Audit Planning Memo
Risk of Material Misstatement at the Financial Statement Level

- Seaway is planning on branching out into commercial property ownership and has approached new lenders for financing. This lender will be using the 2025 year-end financial statements to determine whether financing will be issued and its terms. As a result, Seaway management may be biased to manipulate the financial statements to appear stronger so it can secure financing.
- Robert, Seaway's controller, is new. It is unclear how long he has been with the company and whether the position was vacant for a short or substantial period of time. He seems unfamiliar with certain treatments (e.g., various tax treatments, accounting for discontinued operations, etc.). There may be other errors in the financial statements (or with tax treatments leading to balances in the financial statements) that are yet unknown.
- Seaway has several complex transactions during the 2025 fiscal year, such as the acquisition and consolidation of Green (with non-controlling interest to consider) and the discontinued operation and sale of assets from the Calgary office. Given the complexity, there may be errors in the financial statements.

We will respond to these risks by increasing substantive procedures on complex accounting transactions and areas of estimation and judgment.

Materiality

Planning materiality is set based on the users of the financial statements. They are as follows:

- The private equity fund (majority shareholder) will be using the financial statements to determine if its investment is sound and providing a sufficient return on investment. It will be most interested in profitability (and thus net income).
- The new potential lender is using the financial statements to determine whether Seaway is likely capable of repaying principal and interest should a loan be granted. This user is also most likely interested in profitability.
- The board of directors is keen to assess performance and would also likely use profitability to determine whether the company is generating value for shareholders. This is further supported by their interest in operating margin.

Given all the users are interested in profitability, net income before tax would be the most appropriate basis for materiality. CAS 320.A8 notes:

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.

The potential new lender is likely somewhat sensitive to errors in the financial statements, given their use of the statements for decision-making around issuing debt, while the other users are not overly sensitive. For materiality, the typical percentage of 5% is appropriate.

I do not currently have total net income before tax, but I do have operating income. Since the Calgary operations have been discontinued, I will remove them from the calculation of materiality, since it better reflects net income before tax on a continuing basis:

Total operating income	$8,505,000
Add back Calgary loss	840,000
Revised operating income	9,345,000
	5%
	$467,250

We would set planning materiality at around $467,000.

Performance materiality is set to reduce the likelihood of undetected and/or uncorrected errors aggregate to more than planning materiality. A range of 60% to 90% is typically used. Given our understanding of the entity, a midpoint in this range would be appropriate (75%), leading to performance materiality of around $350,000 ($467,000 x 75% = $350,250).

Approach

It is difficult to determine the strength of the control environment with the information available at this stage. I would like to review the prior years' audit files to better understand Seaway's controls and whether we have relied on them in the past. I will then need to determine what changes, if any, have occurred in the control environment in the past year through discussions with Robert and senior management.

We know the controller is new, which may have affected the control environment. There may have been a vacancy for a period of time, and the new controller may have had a learning curve during which controls may not have been adhered to completely.

I will need to obtain information regarding the changeover from one controller to the next. Perhaps there was overlap between the old and the new, with training provided.

We know the payroll function has changed from in-house to outsourced, although the new provider seems to have sufficient controls, other than one exception, which is limited to a 2-week period (see discussion in the next section).

We will also need to consider the audit of the subsidiaries (such as GreenSpace). If they are being audited or reviewed separately, will our firm be the auditors/reviewers, or will we be relying on the work of component auditors/reviewers?

The board of directors seems to provide some oversight function, which suggests a strength in controls.

In conclusion, I do not have enough information at this point to determine an appropriate approach and will need to complete the work mentioned above.

SOC Reports and Exception in Type 2 Report

Reliance on SOC Reports

Effective January 1, 2025, Seaway transitioned from processing payroll internally to outsourcing payroll services to Cedar, a third-party payroll service provider. Cedar is responsible for payroll processing, calculations, and generating payroll reports based on the information provided by Seaway. Because Cedar performs key payroll processing activities and generates payroll reports relied upon by Seaway for recording payroll in its accounting records, the controls at Cedar are relevant to our audit and must be considered in our risk assessment and audit approach.

A SOC Type 1 (Type 1) report provides reasonable assurance on the description of the service organizations system, control objectives and related controls, and the suitability of the design of the related controls to achieve the specified control objectives. It evaluates whether controls are effectively designed to achieve the control objectives, but it does not provide evidence about whether those controls operated effectively over a period of time. Based on the email, it seems the controls at Cedar are indeed effectively designed to achieve the control objectives (unqualified audit opinion).

A SOC Type 2 (Type 2) report provides reasonable assurance over the same matters as the Type 1 report but also includes assurance on the operating effectiveness of the controls over a specified period. In addition, a Type 2 report includes a description of the service auditor's tests of controls and the results of those tests. The description of the service auditor's tests of controls and the results of those tests may be used by the auditor as audit evidence regarding the effectiveness of the controls.

CAS 402 does not require that a SOC report be obtained in all circumstances; however, a SOC report is one way the auditor can obtain the evidence required. Whether this is the preferred path depends on the audit approach taken by us, including other planned procedures surrounding payroll.

Since Seaway relies on payroll registers and summary reports generated by Cedar for recording payroll expenses in the general ledger, it would be reasonable to consider relying on controls at the service organization. Because a Type 2 report is available at Cedar, this report could provide evidence of the operating effectiveness of those controls and support a reduction in substantive testing.

If we were taking a substantive approach, the Type 1 report would be used for risk assessment and audit design, not to reduce substantive testing. However, if relying on controls, the Type 1 report would be used to obtain evidence over the design and implementation of controls at the service organization. If we intend to rely on controls at the service organization to reduce the extent of substantive testing, CAS 402 also requires that we obtain evidence of operating effectiveness, which could be done by obtaining a Type 2 report. A Type 2 report would not be required if following a substantive approach.

The SOC Type 2 report for Cedar covers the period of November 1, 2024, to October 31, 2025; however, our audit covers the period of January 1, 2025, to December 31, 2025. As a result, there is a 2-month period not covered by the Type 2 report.

Due to the gap, we must perform additional procedures to obtain evidence regarding the operating effectiveness of controls during the period. To address this two-month gap, we could ask management and Cedar about any changes to controls after October 31, 2025, and obtain a bridge letter from Cedar confirming whether there were any significant changes to the control environment during the gap period. We could also increase substantive procedures for payroll transactions during November and December 2025.

<u>Exception Noted and Additional Procedures</u>

During our assessment of the Type 2 report, we must consider the results of the service auditor's testing. In this case, an exception was noted by the service auditor while testing control PP-AC-07, which requires that all changes to employee payroll master data be reviewed and approved by an authorized supervisor prior to processing.

An exception does not automatically preclude reliance; however, we must assess the nature and significance of the exception. The service auditor indicated, "For the first payroll period in October 2025, payroll master data changes were processed without evidence of approval. This occurred due to a temporary system misconfiguration issue that bypassed the approval workflow. Management indicated payroll changes were subsequently reviewed and no issues were found."

This control is significant because a payroll master file would impact employee pay rates, banking information, and other sensitive personal information used for calculating and administering payroll. A failure in this control could result in unauthorized or inaccurate payroll payments, which may have impacted salary expense, payroll liabilities, or payroll remittances. The exception increases control risk of payroll transactions.

The service auditor noted this only affected a single pay period, the first payroll period in October 2025, and it occurred due to a temporary system misconfiguration issue. It appears the issue was isolated and promptly remediated. The service auditor also noted that management subsequently reviewed all relevant payroll changes and no issues were noted; however, this subsequent review would not have been within the scope of the Type 2 report. It may still be appropriate to rely on Cedar's controls overall.

The following applicable procedures will respond to this exception:

- Obtain a listing of all payroll master file changes processed for Seaway employees during the affected period and inspect documentation (e.g., employee contracts for start dates, termination dates, and wage rates/salary amounts; board of directors minutes for approval to pay increases, etc.) to verify the validity of the changes, supporting occurrence, existence, and accuracy.

- Recalculate payroll amounts for a sample of Seaway employees for the affected payroll period by recomputing gross pay, required deductions, net pay based on authorized pay rates, approved hours worked, and required statutory deductions to support accuracy.

- Compare individual employee payroll amounts for the affected payroll period to the prior payroll period and investigate any changes by obtaining supporting documentation (e.g., approved pay change form, new employee contract, termination records, new void cheque provided by an employee) to support accuracy.

- Select a sample of employees and compare the authorized salary or pay rate specified in the signed employment contract to the amount paid during the affected payroll period to support accuracy.

- Select a sample of payments made by Cedar during the affected pay period and agree the bank account information to the authorized documentation maintained by SPM, such as the void cheque or direct deposit authorization form provided by the employee to support accuracy.

Accounting Issues

<u>Calgary Office Closure</u>

During 2025, management identified the Calgary operations as consistently underperforming and generating operating losses, and the board approved a formal plan on July 15, 2025, to exit the market. Seaway ceased accepting new clients, initiated contract cancellations, vacated the office, and began marketing the office and related IT equipment for sale, although no transactions were completed before year-end.

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, provides the guidance related to assets held for sale, such as the office and equipment. IFRS 5.6 states:

> *"An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use."*

The carrying amount of both the office and equipment will be recovered through a sale transaction, as the office will be sold through the real estate broker and the equipment will be sold through the auction platform. The assets are no longer needed due to the shutdown of the Calgary operations.

IFRS 5.7 states:

> *"For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable."*

Therefore, we must determine whether the office and equipment are available for immediate sale in their present conditions and if their sales are highly probable.
The office was vacated by November 2025, and the IT equipment located within the office was shipped to Ottawa in December 2025, so as at year-end, it appears that the office was available for immediate sale in its present condition.

After the IT equipment was shipped to Ottawa, it was listed on an auction platform in December 2025. The auction is scheduled to close in February 2026. Since Seaway expects the email systems will be fully transferred to other servers located in Ottawa by the time the auction closes, the equipment was still being used as at year-end for Seaway's corporate email system. Thus, it does not appear to have been available for immediate sale in its present condition.
IFRS 5.8 states:

> *"For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group)..."*

On July 15, 2025, the board of directors approved a formal plan to exit the Calgary market, and in November 2025, management engaged an external real estate broker to market the property for sale. Therefore, it appears the appropriate level of management is committed to selling the office.

> *"...and an active programme to locate a buyer and complete the plan must have been initiated."*

An active programme to locate a buyer for the office has been initiated. By November 2025, the Calgary office has been vacated, and Seaway has engaged an external real estate broker to market the property for sale.

> *"Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value."*

The office was originally acquired for $3,200,000 (building at $2,400,000 and land at $800,000) and was ultimately listed for $4,000,000, a 25% increase. It's unclear how long Seaway had owned the office or if the listed price is aligned with fair market values. Further, there were disagreements between us and the broker regarding the listing price, which may indicate some uncertainty regarding the property's fair value. However, an offer for the office was received in December 2025 for 4% below the asking price. This suggests that the listing price is reasonable in relation to its current fair value.

> *"In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9..."*

In this case, Seaway has already vacated the office, listed it for sale, and received an offer. It appears that the sale will likely be completed within one year.

> *"... and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn."*

As at year-end, Seaway had transferred the manager of the Calgary operations to the Ottawa location, cancelled all the existing property management contracts, and notified employees of the exit. There is nothing to indicate that the plan to sell the office will be withdrawn.

> *"The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."*

The board of directors, acting on behalf of shareholders, approved the formal plan to exit the Calgary market on July 15, 2025. Therefore, shareholder approval can be considered granted.

Based on the facts presented, the IT equipment does not appear to be available for immediate sale in its immediate condition, since it continues to be used for Seaway's corporate email at year-end. This does not meet the criteria for classification as held for sale and should remain classified within property, plant, and equipment, with depreciation continuing while the asset remains in use.

The Calgary office had been vacated prior to year-end and was actively marketed for sale. The actions taken indicate that the sale is highly probable. Therefore, the office meets the criteria to be classified as an asset held for sale as at year-end.
IFRS 5.15 states:

> *"An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell."*

The office was originally acquired for $3,200,000, but it has a current carrying value of $2,655,000. The estimated fair value is approximately $4,000,000, based on the agreed-upon listing price, and estimated costs to sell consist of a 5% sales commission. The fair value less cost to sell is calculated as $4,000,000 - ($4,000,000 x 5%) = $3,800,000.

Because the carrying amount of $2,655,000 is lower than the fair value less cost to sell of $3,800,000, the office (building and land) should continue to be measured at the carrying amount of $2,655,000 upon classification as held for sale and presented separately as a current asset on the statement of financial position.

<u>Discontinued Operations:</u>

IFRS 5.30 states:

> *"An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)."*

Therefore, we must assess whether the Calgary operations as a whole constitute a discontinued operation.

IFRS 5.31states:

> *“A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.”*

The Calgary operations represent a distinct geographic unit with separately identifiable revenues (2025 - $8,150), operating losses (2025 - $840), and assets (2025 - $3,000). In addition, a quarterly reporting package reviewed by the chief executive officer includes revenue, operating income, and total assets by major city.

Management evaluates performance and makes strategic decisions at the geographical level, demonstrating that the Calgary operations are clearly distinguished operationally and for financial reporting purposes, and are, therefore, a component.
IFRS 5.32 states:

> *“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...”*

Since the Calgary operations meet the definition of a component of an entity, as discussed above, we must determine whether it represents a separate major line of business or geographical area of operations.

Revenue from the Calgary operations has historically been comparable to other major markets and has represented a significant portion of Seaway’s managed properties. In 2025, Calgary generated just over 10% of total consolidated revenue and, while smaller than Vancouver, remained a meaningful contributor relative to other cities. Based on its financial significance, it is reasonable to consider the Calgary operations a separate major geographical area of operations.

Therefore, the Calgary operations meet the criteria to be considered a discontinued operation. Seaway must present a single amount in the statement of comprehensive income for discontinued operations, which includes both the post-tax profit or loss from those operations and any post-tax gain or loss recognized on their measurement to fair value less costs to sell or on disposal.

<u>Segmental Reporting</u>

The draft financial statement notes disclosures contain a disclosure for reporting segments. The disclosure indicates that Seaway has identified its reportable segments based on the nature of services provided.

IFRS 8.5 states:

> *“An operating segment is a component of an entity:*

> *(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),"*

Each service line presented in the draft disclosure (condominium management, commercial property management, residential property management, and short-term rental management) generates revenue and incurs related expenses, as evidenced by segmented revenue and operating income amounts disclosed.

However, the quarterly reporting package prepared for the board of directors presents financial information by city (Ottawa, Toronto, Vancouver, Calgary, Brockville, Kingston, and Smiths Falls), and each city likewise generates revenue and incurs expenses, as shown in the geographic performance table.

Both service lines and geographic area satisfy these criteria.

> *"(b) whose operating results are regularly reviewed by the entity's <u>chief operating decision maker</u> to make decisions about resources to be allocated to the segment and assess its performance"*

IFRS 8.7 states:

> *"The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others."*

I assume the board of directors would be considered the chief operating decision-maker for Seaway since the board decided to exit the Calgary market after reviewing the results.

Beginning in 2025, Seaway's leadership team shifted from evaluating performance by service line to reviewing financial and operational results primarily on a geographic basis. These results are used to make decisions regarding capital allocation, staffing levels, and market participation.

Therefore, it appears that resource allocation decisions are based on geographic components rather than service lines.

> *"(c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues."*

Based on the information presented, revenue, operating income, and assets are available by city, as shown in the quarterly reporting package. The draft segment disclosure presents only revenue and operating income by service line. It's unclear whether assets or other financial information are tracked and reviewed by service line.

Based on the above, the criterion suggest that cities may represent a better operating segment for Seaway than service lines.

IFRS 8.8 states: *"For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating*

segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors."

Although IFRS acknowledges that entities may produce reports in a variety of ways, certain factors must be considered, including the nature of business activities, the existence of managers responsible for them, and information presented to the board of directors.

In this case, performance is assessed on a geographic basis. The CEO and the board of directors receive quarterly reporting packages presenting revenue, operating income, and total assets by city. Strategic decisions, including the decision to exit the Calgary market, were made using geographic-based financial information, and there was a manager responsible for Calgary operations, indicating accountability at the city level.

Together, the factors support geographic segmentation as the basis most consistent with how management evaluates performance and allocates resources.

IFRS 8.13 states: *"An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:*

> *"(a)Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments."*

For the year ended December 31, 2025, total revenue was $76,440,000. A 10% threshold would represent $7,644,000. Based on this threshold, Ottawa, Toronto, Vancouver, and Calgary would each be one reportable segment.

> *"(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss."*

For the year-ended December 31, 2025, the combined reported profit of all operating segments that did not report a loss was $9,345,000, and the combined reported loss of all operating segments that reported a loss was $840,000. A 10% threshold on the greater number is an absolute amount of $934,500. Based on this threshold, Ottawa, Toronto, and Vancouver would each be one reportable segment.

> *"(c) Its assets are 10 per cent or more of the combined assets of all operating segments."*

As of December 31, 2025, the combined assets of all operating segments were $62,210,000. A 10% threshold would represent $6,221,000. Based on this threshold, Ottawa, Toronto, and Vancouver would be a reportable segment.

Therefore, based on each of the tests above, Ottawa, Toronto, Vancouver and Calgary would each be a reportable segment.

IFRS 8.15 states: *"If the total external revenue reported by operating segments constitutes less than 75 percent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 percent of the entity's revenue is included in reportable segments."*

If revenue for Ottawa, Toronto, Vancouver, and Calgary is disclosed, this would represent a total of $73,940,000, which is 96.7% of total revenue. This exceeds the 75% minimum requirement. No further segments required disclosure.

Memo – Assurance on Key Performance Indicators (KPIs)

<u>Potential Reports</u>

The board of directors and investors have voiced that they would like audit-level assurance on the KPIs used to assess performance. Several reporting options are available that could be used:

1. Because there is no agreement in place requiring the targets to be achieved, a direct or attestation engagement to report on compliance is not appropriate, but their umbrella engagements (CSAE 3000 – Attestation Engagements Other than Audits or Reviews of Historical Financial Information, or CSAE 3001 – Direct Engagements) could be used.

   For the attestation engagement, senior management would issue an explicit statement as to whether the targets set out by the interested parties have been achieved or what the resulting KPIs are for the fiscal year, and the auditor would issue an opinion on whether management's statement is fairly stated.

   In a direct engagement, senior management makes no such statement, and instead the auditor provides an opinion on whether the targets set out by the interested parties, in all material respects, have been achieved or the KPIs are, in all material respects, fairly stated.

   While both of these reports are available at the audit and review level, the audit-level has been requested. The auditors would need to assess whether these KPIs are measurable and/or can be audited.

2. Although "audit-level" assurance has been requested, the board of directors and the investors may be satisfied with a CSRS 4400 Agreed-Upon Procedures Engagement. In this engagement, no assurance is provided nor opinion given. Instead, the board/investors would have input into the procedures that would be performed by the practitioner, and the practitioner would perform those exact procedures, reporting factually on the results. Audit-level procedures could be requested and performed, and the results would then be reported on by the practitioner. If designed well, the procedures and results could be sufficient to allow the board/investors to conclude on their own whether the targets have been achieved.

Sample Audit Procedures

Assuming that a CSAE 3000 or CSAE 3001 engagement is used, a sample of audit procedures would be as follows:

1. Overall

   They would first verify the definition of each KPI to ensure they have an appropriate understanding of the measures.

2. Operating Margin

   Given the financial statements will be audited, the two inputs necessary for this KPI will already have been audited. The procedure for this engagement would be as simple as a recalculation of the KPI (audited operating income / audited revenue). However, it is possible that the materiality for this engagement is set lower than that of our financial statement audit. If that is the case, they will need to do more audit work on both the revenue line and the expense lines leading into operating income (e.g., increase sample size).

3. Client Satisfaction Score

   The client satisfaction score is based on electronic surveys distributed to all active clients on December 31 of each year. By only collecting data from active clients that exist as of December 31 of each year, Seaway does not obtain feedback from clients who terminated their contracts during the year. Clients who chose not to renew or who cancelled their services may have done so due to dissatisfaction with their service. Excluding this group from the survey population introduces selection bias and would likely inflate the overall satisfaction levels.

   To facilitate the audit of this item, Seaway must send surveys to the clients who terminated their contracts during the year. Once we have a full population of survey results, they can tally the number of customers who were satisfied or very satisfied over the full population of customers and compare that resulting percentage to the target. Note that they may not be able to confirm the completeness of the survey population due to the lack of control over customers sending in a response.

4. Corporate Energy Consumption

   Corporate office energy consumption is being measured based on electricity expense recorded in the general ledger. Electricity expense would be impacted by both changes in usage (kWh) and changes in electricity rates charged. Changes to electricity rates, billing structures, pricing adjustments, or government rebates could all increase or decrease electricity expense even if energy usage remained the same or moved in the opposite direction. When cost is used as a proxy for usage, the KPI may not reflect the actual change in energy consumption. In addition, a change in square footage (e.g., Calgary office closure) would affect the total energy consumed, but not because of improved efficiency, which is likely the intention.

First, they should confirm with the board and investors whether energy costs as a proxy for consumption is acceptable. If so, their procedure would focus on ensuring the energy billing amounts for this year are complete and last year's all occurred. For this year, they could obtain all the electricity billings for all locations (or perhaps a year-end statement, if it exists) and ensure this year's electricity general ledger account includes all bills. For last year, they would review the electricity general ledger account and obtain the related electricity invoices to ensure they all occurred.

If the board and investors would prefer usage, they would also obtain the billing information for this year and last year, but instead of looking at the dollar amounts, they would verify the kWh used (similarly, a year-end statement from the utilities provider may be available to facilitate this work). They could calculate kWh used per square foot available in each fiscal year and recalculate the change from one year to the next.

5. Reported Workplace Incidents

   They would need to obtain, from HR, all the incident reports and tally them up to ensure there were only 3.

   While the above KPI can be audited as described, I would want to caution the users of the information. Because this KPI relies on employees to self-report incidents, the completeness of the data may be questioned. Employees may choose not to report incidents if they believe the incident was minor, if they are unsure whether it meets the reporting threshold, or if they do not prioritize submitting a report. Incidents may be underreported, which means workplace safety would appear stronger than it actually is. Likewise, by limiting workplace incidents to those that result in medical attention or lost time, the KPI excludes minor injuries, unsafe conditions, near-misses, or more serious injuries where the employee did not seek medical attention. With such a narrow definition, the KPI may overstate workplace safety by omitting other relevant health and safety events.

Draft Response – Tax Issues
Calgary

<u>Income Tax – Officer (Building and Land)</u>

The Calgary office (building and land) is listed for sale at $4,000,000, subject to a 5% sales commission. If the building and land sells for the asking price, Seaway will receive net proceeds of $3,800,000 ($4,000,000 less 5% sales commission). These net proceeds would be considered the proceeds of disposition (POD) for income tax purposes, allocated $2,850,000 to the building ($3,000,000 less 5% sales commission) and $950,000 to the land ($1,000,000 less 5% sales commission).

Building

Because this is the only office building Seaway owns, it is the only building in Class 1. The disposition would cause the following:

Beginning UCC			$2,200,000
Less: disposition, lesser of			
	POD: $2,850,000		
	ACB: $2,400,000	(2,400,000)	
Subtotal			
Recapture			200,000
Ending UCC			$0

The recapture of $200,000 represents CCA that was previously claimed in excess of the asset's tax value. Recapture must be added back to net income for income tax purposes and taxed as ordinary business income in the year of disposition.

In addition, a capital gain arises on the excess of the POD over the ACB of the building. $2,850,000^{POD} - $2,400,000^{ACB} = $450,000 capital gain

In 2026, the capital gains inclusion rate is 50%. Therefore, the taxable capital gain would be:

$450,000 x 50% = $225,000

The taxable capital gain of $225,000 is added to net income for tax purposes as aggregate investment income in the year the office is sold.

Land

The land has an ACB of $800,000 and is now being sold for net proceeds of $950,000 ($1,000,000 less 5% commission). Therefore, there is a taxable capital gain of $75,000 ($150,000 x 50%) which is added to net income for tax purposes as aggregate investment income in the year the office is sold.

<u>Income Tax – Equipment</u>

The Calgary IT equipment is expected to sell for approximately $120,000 through auction. Assuming this represents the net amount that will be received after the auction fees, this would be considered the POD. The Calgary IT equipment is in a CCA class that has other assets in the same class.

The opening UCC will be reduced by the $120,000, which is the lessor of the POD ($120,000) and ACB ($200,000). Because the UCC class has a balance of $350,000, there would still be a UCC balance of $230,000 in the class after the disposition ($350,000 - $120,000).

A terminal loss only occurs when all assets in a CCA class have been disposed of and the remaining UCC balance in that class is greater than zero at the end of the year. Since there are still other assets remaining in the class, no terminal loss will arise.

No capital gain will arise on the disposition of the equipment since the proceeds of disposition ($120,000) do not exceed the original cost of the equipment ($200,000). A capital loss cannot be claimed on depreciable property.

GST – Calgary

The sale of both the office (commercial real property) and equipment (tangible personal property) would be considered a taxable supply for GST purposes. Therefore, Seaway would be required to charge, collect, and remit GST on the sale of the office and equipment based on the selling price. If the purchaser is also a GST registrant, they may be able to claim an input tax credit (ITC) to recover the GST paid.

Management asked whether the disposition of the Calgary operations could be considered a sale of a business for GST purposes and whether any special GST elections may be available.

Section 167(1) of the Excise Tax Act permits a joint election between the vendor and purchaser to treat the sale of a business or part of a business as a non-taxable transaction for GST purposes. Section 167(1) applies where the vendor (supplier) transfers a business or part of a business and the purchaser acquires all or substantially all of the property necessary to carry on that business. The election allows the purchaser to acquire the business assets without GST being charged on the transaction.

In this case, Seaway ceased operations in Calgary, stopped accepting new clients, cancelled property management contracts, notified employees of the planned exit, and is selling the office and equipment separately. It is clear that the purchaser will not acquire the assets necessary to carry on the Calgary property management operations. The conditions of Section 167(1) are not met. Thus, an election is not available, and GST must be charged on the sale of the office and equipment.

GreenScape Services

On September 1, 2025, Seaway acquired 55% of the voting shares of GreenScape Inc. (Green). For income tax purposes, an acquisition of control generally occurs when a new person or group acquires more than 50% of the voting shares of a corporation, giving the acquirer control of the target corporation. Since Seaway acquired a majority of the voting shares, it appears that an acquisition of control for tax purposes took place on September 1, 2025.

Deemed Year-End and Short Taxation Year

The target corporation will be subject to a deemed year-end for tax purposes immediately before the time that control is acquired. Since the acquisition of control took place on September 1, 2025, Green will have had a deemed year-end immediately before that date (August 31, 2025), and a T2 will need to be filed for the short taxation year for the period of April 1, 2025, to August 31, 2025. The deemed yearend will result in earlier than usual filing and payment deadlines. Since Green is a Canadian-controlled private corporation (CCPC), payment was due either 2 or 3 months after year-end, depending on its taxable income. In either case, the payment deadline of either October 31, 2025, or November 30, 2025, has passed. Filing is due 6 months after year-end (February 28, 2026).

Certain deductions claimed by Green must be prorated for the shorter tax year, such as capital cost allowance (CCA) and small business deduction (SBD) limit. Green has undepreciated capital cost balances across various CCA classes totalling $600,000. The maximum CCA claim for the taxation year ending August 31, 2025, will be prorated to reflect the shortened taxation year, based on the number of days in the short taxation year. In addition, the federal $500,000 small business deduction limit must also be prorated based on the number of days in the taxation year.

Green will also have a new taxation year beginning September 1, 2025. Seaway may wish to change Green's fiscal year-end to align with Seaway's December 31 year-end. If this occurs, the year-end beginning on September 1, 2025, would end on December 31, 2025. Another T2 would be required to be filed for this short taxation year. The filing and payment deadlines will follow Green's normal corporate tax timelines.

Seaway is a private corporation and is majority-owned by a Canadian private equity fund. Generally, a corporation will be considered a CCPC is if it privately held and not controlled either directly or indirectly by non-residents and/or public corporations. Whether Seaway is considered a CCPC will depend on who ultimately controls the private equity fund. If Seaway is not a CCPC, the acquisition of control will cause Green to lose its status as a CCPC, meaning it would no longer have access to the small business deduction.

<u>Small Business Deduction Limit</u>

Because Seaway acquired control of Green, the corporations will be associated for tax purposes. If Seaway meets the criteria to be a CCPC and has a small business limit available, it would need to share the limit with Green.

<u>Net Capital Losses</u>

Net capital losses cannot be carried forward to years after the acquisition of control or back to years prior to the acquisition. At the acquisition date, Green had net capital loss carryforwards of $80,000. When an acquisition of control takes place, unused net capital losses will expire on the deemed year-end of August 31, 2025, and cannot be carried forward to the new taxation year of Green, beginning September 1, 2025. There is a possibility Green could elect to trigger some capital gains to use up the loss carryforwards that will expire. Since Green had certain publicly traded shares with unrealized capital gains of $70,000, it would have been beneficial for the company to realize those gains prior to the acquisition of control so that the net capital losses could have been used before they expired.

<u>Non-capital Losses</u>

At the acquisition date, Green had non-capital loss carryforwards of $400,000. When an acquisition of control occurs, unused non-capital losses may only be carried forward if the corporation continues to carry on the same or similar business, the corporation has a reasonable expectation of profit in that business, and the losses are used to offset income from that business. Since Green was Seaway's major landscaping and snow removal supplier, the acquisition represents vertical integration, allowing Seaway to bring some of its key services within its control. If Green continues to carry on these same activities and generates income from this business, the non-capital losses may be used against that income in the future.

Unrealized Losses

At the acquisition date, the estimated fair value of certain depreciable assets held by Green was $12,000 lower than their related UCC balances, indicating that unrealized losses exist within one or more CCA classes. When an acquisition of control takes place, special rules apply to prevent the purchaser from benefiting from losses that arose prior to the acquisition. If depreciable property has a fair market value lower than its UCC, the UCC balances of the affected classes must be reduced to reflect the fair market value of the assets immediately prior to the acquisition. In this case, the UCC of the affected classes must be reduced by a total of $12,000, which will reduce Green's CCA deductions going forward.