

# **Build Toronto Inc.**

Consolidated Financial Statements  
**December 31, 2015**



May 10, 2016

## **Independent Auditor's Report**

### **To the Shareholder of Build Toronto Inc.**

We have audited the accompanying consolidated financial statements of Build Toronto Inc., which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise 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 International Financial Reporting Standards, 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.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

# Build Toronto Inc.

## Consolidated Statements of Financial Position

|   | Note | December 31<br>2015<br>\$ | December 31<br>2014<br>\$ |
|---|------|---------------------------|---------------------------|
| <b>Assets</b>                                     |      |                           |                           |
| <b>Current assets</b>                             |      |                           |                           |
| Real estate inventory                             | 6    | 143,666,932               | 153,865,064               |
| Pre-acquisition costs                             | 7    | 2,657,141                 | 2,536,873                 |
| Due from related parties                          | 8    | 2,151,153                 | 2,150,774                 |
| Amounts receivable                                | 9    | 2,769,368                 | 2,972,717                 |
| Prepaid expenses                                  |      | 532,900                   | 215,301                   |
| Loans receivable                                  | 16   | 33,403,778                | 36,162,766                |
| Cash and cash equivalents                         | 10   | 60,468,289                | 72,812,077                |
| <b>Total current assets</b>                       |      | <b>245,649,561</b>        | <b>270,715,572</b>        |
| <b>Non-current assets</b>                         |      |                           |                           |
| Investment property                               | 11   | 14,920,000                | 14,650,000                |
| Investment in equity accounted investments        | 12   | 2,682,828                 | 1,990,858                 |
| Investment in joint venture                       | 13   | 22,639,015                | 12,157,658                |
| Property, equipment and intangible assets         | 14   | 487,762                   | 535,267                   |
| Amounts receivable                                | 15   | 1,351,645                 | 1,430,864                 |
| Loans receivable                                  | 16   | -                         | 1,589,778                 |
| <b>Total non-current assets</b>                   |      | <b>42,081,250</b>         | <b>32,354,425</b>         |
| <b>Total assets</b>                               |      | <b>287,730,811</b>        | <b>303,069,997</b>        |
| <b>Liabilities</b>                                |      |                           |                           |
| <b>Current liabilities</b>                        |      |                           |                           |
| Amounts payable and other liabilities             | 17   | 3,251,479                 | 4,023,452                 |
| Environmental provision                           | 18   | 518,665                   | 5,491,248                 |
| Debt  | 19   | 33,406,788                | 36,165,776                |
| <b>Total current liabilities</b>                  |      | <b>37,176,932</b>         | <b>45,680,476</b>         |
| <b>Non-current liabilities</b>                    |      |                           |                           |
| Environmental provision                           | 18   | 16,495,926                | 11,833,850                |
| <b>Total liabilities</b>                          |      | <b>53,672,858</b>         | <b>57,514,326</b>         |
| <b>Shareholder's Equity</b>                       |      |                           |                           |
| <b>Total equity</b>                               |      | <b>234,057,953</b>        | <b>245,555,671</b>        |
| <b>Total liabilities and shareholder's equity</b> |      | <b>287,730,811</b>        | <b>303,069,997</b>        |

### Commitments and contingencies (note 34)

**(signed)** “David Shiner”  
Director

**(signed)** “Dennis Fotinos”  
Director

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

**Build Toronto Inc.**

## Consolidated Statements of Net Income and Comprehensive Income

For the years ended December 31

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|  | Note | 2015<br>\$   | 2014<br>\$   |
|--|------|--------------|--------------|
| <b>Real estate inventory</b>                                 |      |              |              |
| Sale revenue   | 21   | 22,460,890   | 33,128,798   |
| Cost of sales  | 22   | (14,191,704) | (11,196,410) |
|  |      | <hr/>        | <hr/>        |
|  |      | 8,269,186    | 21,932,388   |
| <b>Net rental income</b>                                     |      |              |              |
| Rental revenue   | 23   | 2,667,099    | 3,199,827    |
| Property operating expenses                                  | 24   | (1,603,240)  | (2,454,264)  |
|  |      | <hr/>        | <hr/>        |
|  |      | 1,063,859    | 745,563      |
| <b>Other income</b>  |      |              |              |
| Guarantee fee  | 25   | 18,467       | 36,930       |
| Project management fees                                      | 26   | 300,000      | -            |
| Interest income  | 27   | 1,538,875    | 2,661,260    |
| Share of net income (loss) from equity accounted investments | 28   | 274,867      | (174,365)    |
|  |      | <hr/>        | <hr/>        |
|  |      | 2,132,209    | 2,523,825    |
| <b>Other expenses</b>  |      |              |              |
| General and administrative expenses                          | 29   | (6,630,466)  | (8,218,826)  |
| Project investigative costs                                  | 30   | 13,873       | (161,694)    |
| Depreciation and amortization                                | 14   | (145,705)    | (217,937)    |
| Finance costs  | 31   | (699,217)    | (876,160)    |
| Finance costs - Accretion of environmental provision         | 18   | (945,613)    | (1,159,908)  |
|  |      | <hr/>        | <hr/>        |
|  |      | (8,407,128)  | (10,634,525) |
| <b>Fair value adjustments and other activities</b>           |      |              |              |
| Net gain from fair value adjustments to investment property  | 11   | 270,000      | 250,000      |
|  |      | <hr/>        | <hr/>        |
| <b>Net income and comprehensive income for the year</b>      |      | <hr/>        | <hr/>        |
|  |      | 3,328,126    | 14,817,251   |

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

**Build Toronto Inc.**

## Consolidated Statements of Changes in Equity

For the years ended December 31

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|   | Note | Common<br>shares<br>\$<br>(note 20) | Contributed<br>surplus<br>\$ | Retained<br>earnings<br>\$ | Total<br>shareholder's<br>equity<br>\$ |
|---|------|-------------------------------------|------------------------------|----------------------------|--|
| <b>Balance - January 1, 2014</b>                                  |      | 1                                   | 195,067,597                  | 20,378,186                 | 215,445,784                            |
| Net income for the year   |      | -                                   | -                            | 14,817,251                 | 14,817,251                             |
| Transfer of properties from the shareholder<br>Inventory property | 33   | -                                   | 15,292,636                   | -                          | 15,292,636                             |
| <b>Balance - December 31, 2014</b>                                |      | 1                                   | 210,360,233                  | 35,195,437                 | 245,555,671                            |
| Net income for the year   |      | -                                   | -                            | 3,328,126                  | 3,328,126                              |
| Transfer of properties from the shareholder<br>Other              | 33   | -                                   | 174,156                      | -                          | 174,156                                |
| Dividend paid   | 20   | -                                   | -                            | (15,000,000)               | (15,000,000)                           |
| <b>Balance - December 31, 2015</b>                                |      | 1                                   | 210,534,389                  | 23,523,563                 | 234,057,953                            |

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

**Build Toronto Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

|   | Note  | 2015<br>\$          | 2014<br>\$         |
|---|-------|---------------------|--------------------|
| <b>Cash provided by</b>   |       |                     |                    |
| <b>Operating activities</b>   |       |                     |                    |
| Net income for the year   |       | 3,328,126           | 14,817,251         |
| Items not involving cash:   |       |                     |                    |
| Straight-line rent  |       | (258,557)           | (258,557)          |
| Deferred lease inducement/escalations amortization                      |       | 64,242              | 50,112             |
| Share of net (income) loss from equity accounted investments            | 28    | (274,867)           | 174,365            |
| Project investigative costs written (back) off                          | 30    | (14,648)            | 143,752            |
| Net gain from fair value adjustments to investment property             | 11    | (270,000)           | (250,000)          |
| Accretion of environmental provision                                    | 18    | 945,613             | 1,159,908          |
| Non-cash interest income  | 27    | (29,014)            | (35,625)           |
| Amortization and depreciation   | 14    | 145,705             | 217,937            |
| Gain on disposal of computer equipment                                  |       | -                   | (44)               |
| Real estate inventory   |       |                     |                    |
| Additions to real estate inventory                                      | 6(b)  | (5,240,044)         | (7,024,423)        |
| Government grants   | 6(c)  | -                   | (148,750)          |
| Cost of sales   | 22    | 14,196,704          | 10,842,410         |
| Pre-acquisition costs   |       |                     |                    |
| Additions   | 7(a)  | (120,268)           | (1,200,314)        |
| Changes in non-cash working capital                                     | 32    | 1,179,880           | 23,630,887         |
| <b>Net cash provided by operating activities</b>                        |       | <u>13,652,872</u>   | <u>42,118,909</u>  |
| <b>Investing activities</b>   |       |                     |                    |
| Purchase of property, equipment and intangible assets                   | 14    | (98,200)            | (36,661)           |
| Cash proceeds on disposal of computer equipment                         |       | -                   | 44                 |
| Addition to joint venture   | 13    | (10,601,287)        | (8,945)            |
| Advance to equity accounted investments                                 | 12    | (705,902)           | (336,243)          |
| Repayment of TWSI put option funding                                    | 12    | 408,729             | -                  |
| Repayment of deferred payment loan receivable                           | 16(b) | 2,660,917           | 1,000,000          |
| Repayment of accrued interest on deferred payment loan receivable       | 16(b) | 187,376             | 219,655            |
| <b>Net cash (used in ) provided by investing activities</b>             |       | <u>(8,148,367)</u>  | <u>837,850</u>     |
| <b>Financing activities</b>   |       |                     |                    |
| Repayment of deferred payment loan payable                              | 19(b) | (2,660,917)         | (1,000,000)        |
| Repayment of accrued interest on deferred payment loan payable          | 19(b) | (187,376)           | (219,655)          |
| Payment of dividends  | 20    | (15,000,000)        | -                  |
| <b>Net cash used in financing activities</b>                            |       | <u>(17,848,293)</u> | <u>(1,219,655)</u> |
| <b>(Decrease) increase in cash and cash equivalents during the year</b> |       | (12,343,788)        | 41,737,104         |
| <b>Cash and cash equivalents - Beginning of year</b>                    |       | <u>72,812,077</u>   | <u>31,074,973</u>  |
| <b>Cash and cash equivalents - End of year</b>                          | 10    | <u>60,468,289</u>   | <u>72,812,077</u>  |

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

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2015

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### 1. Organization

Build Toronto Inc. (the Company) was incorporated under the Ontario Business Corporations Act on November 13, 2008. The Company is a wholly-owned subsidiary of the City of Toronto (the City), created to enhance the value of underutilized real estate previously owned by the City. This is done within the framework of delivering a financial dividend to the City and to achieve city-building results. These include: enhanced employment opportunities, a focus on quality, urban design and environmental sustainability, and acting as a catalyst for responsible neighbourhood regeneration. As a municipal corporation under Section 149(1) of the Income Tax Act (Canada), the Company is exempt from income taxes. The address of its registered office is 200 King Street West, Suite 200, Toronto, Ontario, Canada.

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2015. To mitigate risk, the Company's principal operating company is Build Toronto Inc. and the portfolio of properties and investments in associates and joint arrangements are held by 100% wholly owned subsidiaries.

The wholly owned subsidiaries and their activities are shown in the table below:

| Name of the Holding Company Subsidiaries      | Activities                   |   |                            |
|---|------------------------------|---|----------------------------|
|   | Development of real property | Joint arrangement for real estate development | Investment in film studios |
| Build Toronto Holdings One Inc. (BTHOI)       |                              |   | √                          |
| Build Toronto Holdings (Harbour) Inc. (BTHHI) |                              | √   |                            |
| Build Toronto Holdings (Ordnance) Inc.        |                              | √   |                            |
| Build Toronto Holdings (York Mills) Inc.      | √                            |   |                            |
| Build Toronto Holdings (Victoria Park) Inc.   | √                            |   |                            |
| Build Toronto Holdings (Tippett) Inc.         | √                            |   |                            |
| Build Toronto Holdings (Dunelm) Inc.          | √                            |   |                            |
| Build Toronto Holdings (Billy Bishop) Inc.    | √                            |   |                            |
| Build Toronto Holdings (Richmond) Inc.        | √                            |   |                            |
| Build Toronto Holdings (Bicknell) Inc.        | √                            |   |                            |

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## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

December 31, 2015

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## **2. Significant Accounting Policies**

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### **Basis of presentation**

The Company has been identified as an other government organization and accordingly prepares its consolidated financial statements in accordance with IFRS.

Changes in standards effective for future accounting periods are described in note 5 Future Accounting Policy Changes.

### **Basis of measurement**

The consolidated financial statements have been prepared using the historical cost convention, except for investment properties which are measured at fair value as determined at each reporting date.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Build Toronto Inc. and its subsidiaries (including structured entities). Subsidiaries are fully consolidated from the date of inception, which is the date on which the company obtains control, and continue to be consolidated until the date such control ceases. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

### **Real estate assets**

- Real estate inventory

Commercial development properties and land held-for-sale in the ordinary course of business are held as real estate inventory and measured at the lower of cost and net realizable value.

Capitalized costs include all expenditures incurred in connection with the acquisition of the property, assessment of environmental conditions, site surveys, appraisals, direct development and construction costs, and property and environmental insurance and taxes. For real estate inventory transferred by the City, the fair value of the property less costs to sell is deemed to be its cost at the date of transfer. General and administrative costs and selling and marketing costs are expensed as incurred.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

**December 31, 2015**

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The carrying value of properties held as real estate inventory, including capitalized costs, is adjusted to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, based on prevailing market prices at the date of the consolidated statement of financial position and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

Cost of sales of real estate inventory is based on actual costs incurred or to be incurred. Selling costs are expensed directly to cost of sales.

- Investment property

Investment property comprises land held to earn rentals or for future development as investment property, or capital appreciation, or both.

Investment property is initially recorded at cost. Cost of investment property includes the acquisition cost of the property, including related transaction costs in connection with an asset acquisition, assessment of environmental conditions, site surveys, appraisals, direct development and construction costs and property insurance and taxes during development. For property transferred by the City, the fair value of the property is deemed to be its cost at the date of transfer. Subsequent expenditure is capitalized to the investment property's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Subsequent to initial recognition, investment property is measured at its fair value at each reporting date. Related fair value gains and losses are recorded in net income in the period in which they arise. The fair value of investment property is estimated internally by the Company at the end of each reporting period. In addition to these internal property valuations, the Company will review the fair value of material investment property using an independent third party appraiser on a rolling basis over a period of three years or less, as determined by management. The internal property valuations prepared by the Company are based primarily on a discounted cash flow (DCF) model where the property generates rental income, which estimates fair value based on the present value of the property's estimated future cash flows. Estimated fair values are determined on a property by property basis. The Company's current investment property is film studio land and land improvements. The fair value of the film studio land and land improvements is estimated using DCF over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation.

- Transfers of property between investment property and inventory

A property is transferred from investment property to inventory only when the Company determines there has been a change in use supported by objective evidence of a change in intention to now develop the property for sale in the ordinary course of business and development activities contributing to the sale have commenced or are underway. The investment property is measured at its fair value before transfer, and such fair value becomes the deemed cost of the inventory after transfer.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

**December 31, 2015**

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A property is transferred from inventory to investment property only when the Company has a lease with a tenant and the lease has commenced. The investment property is measured at its fair value on transfer and any gain or loss is recorded consistent with sales of inventory.

- Pre-acquisition costs

Pre-acquisition costs include costs incurred in the investigative and pre-transfer stage. Pre-acquisition costs and project investigative costs, which will not benefit future periods or for a project which has been abandoned, are expensed as soon as it becomes evident there is no future value.

#### **Equity accounted investments**

The Company accounts for its investments in associates using the equity method of accounting. An associate is an entity over which the Company has significant influence, but not control.

The financial results of the Company's equity accounted investments are included in the Company's consolidated financial statements using the equity method, whereby the Company recognizes its proportionate share of earnings or losses.

The Company assesses, at least annually, whether there is objective evidence that its interests in equity accounted investments are impaired. If impaired, the carrying value of the Company's share of the underlying assets of an equity accounted investment is written down to its estimated recoverable amount, which is the higher of fair value less costs to sell and value in use, with any difference charged to net income.

#### **Investment in joint arrangements**

A joint arrangement is a contractual arrangement between the Company and other parties to undertake economic activities that require the unanimous consent of the parties sharing control in strategic financial and operating policy decisions relating to the activities of the joint arrangement. Joint arrangements that involve the establishment of a separate vehicle in which each party has an interest are considered to be joint ventures and are accounted for using the equity method as outlined above. For joint arrangements where the Company undertakes its activities through a direct interest in a joint arrangement's assets, rather than through the establishment of a separate entity, the arrangement is considered to be a joint operation and the Company's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flows are recognized in the consolidated financial statements and classified according to their natures.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Assets classified as held-for-sale

Assets and groups of assets and liabilities (other than real estate inventory), which comprise disposal groups, are categorized as assets held-for-sale where the asset or disposal group is available-for-sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if: management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and changes to the plan are unlikely. Where an asset or disposal group is acquired with a view to resale, it is classified as a current asset held-for-sale if the disposal is expected to take place within one year of the acquisition and it is highly likely the other conditions referred to above will be met within a short period following the acquisition.

#### Property, equipment and intangible assets

Property, equipment and intangible assets include leasehold improvements, furniture and fixtures, office equipment and software licence, and computer equipment. Property, equipment and intangible assets are stated at cost less accumulated depreciation and amortization and accumulated impairment losses.

Depreciation and amortization are provided on a basis designed to depreciate or amortize the costs of the assets over their expected useful lives as follows:

|   |  |
|---|--|
| Leasehold improvements  | straight-line over the term of the lease |
| Furniture and fixtures, office equipment and software licence | 3 to 5 years straight-line               |
| Computer equipment  | 3 years straight-line                    |

Residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end. Cost includes expenditures that are directly attributable to the acquisition, and expenditures for replacing part of the property and equipment when that cost is incurred if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statements of net income and comprehensive income during the period in which they are incurred.

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The amount of the loss is recognized in net income or loss. The carrying amount is reduced by the impairment loss directly. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property, equipment and intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of net income and comprehensive income in the year the asset is derecognized.

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#### **Office occupancy costs, deferred lease inducement and deferred lease escalations**

In 2010, the Company entered into an operating lease to occupy its current head office premises. Rent expense is recorded in office occupancy costs on a straight-line basis over the term of the lease. Differences between the straight-line rent expense and the payments as stipulated under the lease agreement are included in deferred lease escalations in amounts payable and other liabilities. The deferred lease inducement represents cash benefits the Company has received from its landlord pursuant to the lease agreement. Lease inducements received are amortized into office occupancy costs over the term of the related lease on a straight-line basis.

#### **Contributed surplus**

Since its incorporation in 2008, the primary sources of real property, which the Company is mandated to improve and hold for future cash flows (investment property) and sale (real estate inventory), are City council deemed surplus land and deemed surplus property held by other City controlled entities.

Commercial development properties, land and investment property include properties declared surplus by the City that, after an assessment process by the Company, are accepted for transfer from the shareholder.

Transferred properties classified as real estate inventory are initially recorded at fair value less costs to sell. The Company utilizes third party valuations to determine the fair value of the properties and adjusts for estimated costs of outstanding necessary improvements required to bring similar properties to marketable status. Since valuations are not always available as at the date of transfer, the Company prepares an internal valuation which factors in the impact of the timing difference and adjusts the fair value accordingly.

Transferred properties classified as investment property are initially recorded at fair value. The Company utilizes third party valuations to determine the fair value of the properties. Since valuations are not always available as at the date of transfer, the Company assesses the impact of the timing difference and adjusts the fair value accordingly.

The Company records the difference between the fair value at the date of transfer of the properties and the consideration paid, if any, as contributed surplus.

#### **Revenue recognition**

Revenue from the sale of developed sites and land sold to third parties is recognized when the agreement of purchase and sale is executed, the earnings process is virtually complete, the significant risks and rewards of ownership are transferred to the buyer and the Company does not have a substantial continuing involvement with the property to the degree usually associated with ownership. Revenue is recognized provided the agreement of purchase and sale is unconditional, the costs in respect of the property can be measured reliably and the collectability of the remaining proceeds is reasonably assured. If these criteria are not met, proceeds are accounted for as deposits until all of the criteria are met.

The Company accounts for tenant leases as operating leases as the Company has retained substantially all of the risks and benefits of ownership of its investment property. Rentals from investment property include rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rents from tenants may include free rent periods and rental increases over the term of the lease and are recognized in revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is included in amounts receivable as straight-line rent receivable. Lease

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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incentives provided to tenants are deferred and are amortized against revenue over the term of the lease. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Other income is recognized as earned.

Interest income is recognized using the effective interest method.

#### Dividends

Dividends to the shareholder are recognized as a liability in the period in which the dividend is approved by the Board of Directors and are recorded as a reduction of retained earnings.

#### Financial instruments

The following summarizes the Company's classification and measurement of financial assets and financial liabilities:

|                                       | Classification        | Measurement    |
|---------------------------------------|-----------------------|----------------|
| <b>Financial assets</b>               |                       |                |
| Due from related parties              | Loans and receivables | Amortized cost |
| Amounts receivable                    | Loans and receivables | Amortized cost |
| Loans receivable                      | Loans and receivables | Amortized cost |
| Cash and cash equivalents             | Loans and receivables | Amortized cost |
| <b>Financial liabilities</b>          |                       |                |
| Amounts payable and other liabilities | Financial liabilities | Amortized cost |
| Debt                                  | Financial liabilities | Amortized cost |

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise loans receivable, vendor-take-back (VTB) mortgages, due from related parties, amounts receivable and cash and cash equivalents, and are included in current and non-current assets depending on their maturities. Loans and receivables are initially recognized at the amount expected to be received, less a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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b) **Financial liabilities at amortized cost**

Financial liabilities at amortized cost include amounts payable and other liabilities and debt. Amounts payable and other liabilities are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

#### **Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statements of income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan or receivable is impaired, the Company continues unwinding the discount at the original effective interest rate of the instrument as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income and comprehensive income.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. The asset is cash or a cash equivalent unless the asset is restricted.

#### **Restricted cash**

Restricted cash is cash or a cash equivalent that is strictly held for a specific purpose determined by the funder and is expected to be used to settle a liability within twelve months after the reporting period.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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#### **Government grants and government assistance**

From time to time the Company applies for government assistance programs where these are offered to offset the costs of remediation. The Company offsets the capitalized cost(s) where the grant is related to an asset or if the grant is related to income it is deducted from the related expense. The grant is not recognized until all conditions attached to receiving the grant have been met and there is reasonable assurance that the grant will be received.

#### **Environmental provision**

The cost of the Company's obligation to remediate land is recognised when the asset is transferred. The estimated future cost to remediate is recognized in the period the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The present value of the environmental provision is determined based on a discount rate that takes into account the time value of money and reflects the weighted average cost of capital (WACC) of the shareholder and the risks specific to the liability. The liability is reviewed at each reporting date to determine whether the discount rate is still applicable and to determine whether changes are required to the original estimate.

Changes to estimated future costs are recognized on the consolidated statements of financial position by either increasing or decreasing the environmental provision. The environmental provision may not exceed the carrying amount of the corresponding asset. If it does, any excess over the carrying value is taken immediately to the consolidated statements of income and comprehensive income.

### **3. Critical accounting judgments, and estimates and assumptions in applying accounting policies**

#### **Critical judgments in applying accounting policies**

The following are the critical judgments that have been made in applying the Company's accounting policies that have the most significant effect on amounts in the consolidated financial statements:

- Determination of initial classification of acquired property as either inventory or investment property

In assessing the initial classification of an acquired property, the Company prepares a strengths-weaknesses-opportunities-threats analysis using certain assumptions and inputs to develop a preliminary business plan in order to determine the intended use of the property. When the Company has the intention to hold an acquired property specifically to earn rental income and/or capital appreciation, the property is classified as an investment property; if the intention is to develop and sell the property in the ordinary course of business, it is classified as inventory. Significant judgment is applied in deriving the assumptions and in applying the inputs, and different assumptions could result in the change in the classification of the acquired property.



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- Determination of transfer of property to/from inventory and investment property

The Company assesses internally, at each reporting date, whether there is any objective evidence indicating significant changes in the assumptions and inputs used in the preliminary business plan in determining the initial classification of the acquired property. Where there are many differences affecting the original intentions for the use of the property, the business plan is revised to reflect those changes and the acquired property will be reclassified, if necessary, to align with the revised business plan.

- Determination of whether the Company has joint control of an arrangement

In assessing that the Company has joint control of an arrangement, management considers whether decisions on relevant activities require the unanimous consent of the Company and the other party or are controlled by one party alone.

- Determination of whether the Company has significant influence over its associates

In assessing that the Company has significant influence over its associates, management considers the rights and obligations of the various investors and whether the Company has the power to participate in the financial and operating policy decisions of the investees, but not control or joint control over those policies.

- Timing of recognition of properties transferred from related parties

Critical judgments are made by management in determining when to recognize properties transferred from related parties. Properties transferred from the City and other City controlled entities are recognized at the later of: (i) the time the City declares the property surplus and approves the transfer; and (ii) when the Company completes the environmental risk analysis and accepts the property. The point at which it is considered probable that the future economic benefits associated with the property will flow to the Company is considered to be the point when the City commits to the transfer to the Company and the Company accepts the transfer. At this point, transfer of legal title from the City or other City controlled entity to the Company is considered to be an administrative process and virtually certain to occur.

- Determining approach and frequency of external appraisals for investment property

Management uses judgment in its approach to determining fair values of investment property. The fair values of these properties are reviewed regularly by management with reference to independent property appraisals and market conditions existing at the reporting date. The Company selects independent appraisers who are nationally recognized and qualified in the professional valuation of investment property and experienced in the geographic areas of the properties held by the Company. Judgment is also applied in determining the extent and frequency of obtaining independent appraisals, after considering market conditions and circumstances and the time since the last independent appraisal.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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#### **Critical accounting estimates and assumptions**

The preparation of the consolidated financial statements 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 amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

- Fair value of real estate investment property at transfer date and period end

Determining the fair value of investment property involves significant estimates of the highest and best use of the property, discount rates, capitalization rates, market rental rates and growth rates, vacancy rates, inflation, structural allowances, lease terms and start dates, leasing costs, costs of environmental remediation requirements if any, and costs of pre-development, active development and construction activities, where applicable. The valuation inputs are derived from various sources of information, including third party sources such as independent appraisals, environmental assessment reports, internal budgets and management's experience and expectations. Judgment is also applied in adjusting independent appraisals for the impact of any differences between the date of the appraisal and the date of measurement.

- Fair value of real estate inventory at transfer date

The fair value of real estate inventory involves significant estimates of the highest and best use of the property, maximum density achievable, potential zoning changes, costs of environmental remediation requirements, if any, and costs of pre-development, active development and construction activities, where applicable. The valuation inputs are derived from various sources of information, including third party sources such as independent appraisals, environmental assessment reports, internal budgets and management's experience and expectations. Judgment is also applied in adjusting independent appraisals for the impact of any differences between the date of the appraisal and the date of measurement.

- Net realizable value of real estate inventory at period end

Commercial development properties and land held-for-sale in the ordinary course of business are stated at the lower of cost and net realizable value. In calculating net realizable value, management must estimate the selling price of the assets based on prevailing market prices at the date of the consolidated statements of financial position and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

- Impairment of financial assets (including equity accounted investments) and fair value of financial instruments

At each reporting date, management is required to assess whether its financial assets are impaired. The criteria used to determine whether there is objective evidence of impairment include: (a) significant financial difficulty of the borrower or investee; (b) delinquencies in interest or principal payments from the borrower; and (c) the probability the borrower or investee will enter bankruptcy or other financial reorganization. Assessing fair value of financial instruments requires significant estimates of future cash flows and appropriate discount rates.

- Useful lives and impairment of property, equipment and intangible assets

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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The Company makes estimates and assumptions when assessing the possibility and amount of impairment of property, equipment and intangible assets. Such estimates and assumptions primarily relate to the timing and amount of future cash flows. The Company also makes estimates and assumptions as they pertain to the expected useful lives and residual values of property, equipment and intangible assets, which are reviewed at least annually.

- Carrying value of the environmental provision

The Company is required to make estimates and assumptions relating to its environmental provision, including estimates of future remediation requirements, timing and related costs.

#### **4. New accounting standards adopted in 2015**

##### **IAS 40, Investment Property (IAS 40)**

Effective January 1, 2015, the amended standard provided additional guidance for companies to differentiate between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment is applied prospectively and also clarifies that IFRS 3, Business Combinations, is used to determine if the transaction is the purchase of an asset or a business combination and not the ancillary services criteria in IAS 40. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

#### **5. Future accounting policy changes**

##### **IAS 1, Presentation of Financial Statements (IAS 1)**

IAS 1 was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated balance sheets and consolidated statements of net income and comprehensive income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the consolidated statements of net income and comprehensive income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance. The amendments to IAS 1 are effective for periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting this amendment on the consolidated financial statements.

##### **IAS 16, Property, Plant and Equipment (IAS 16) and IAS 38, Intangible Assets (IAS 38)**

The amendments to IAS 16 prohibit entities from using revenue based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments are effective for years beginning on or after January 1, 2016 and are not expected to impact the Company's financial position or results of operations.

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### Notes to Consolidated Financial Statements

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#### **IFRS 7, Financial Instruments: Disclosures (IFRS 7)**

In October 2010, IFRS 7 was amended to enhance disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity's continuing involvement in derecognized financial assets and the offsetting of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2016 and are required to be applied in accordance with the standard. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements; no material impact is expected.

#### **IFRS 9, Financial Instruments (IFRS 9)**

In November 2009, the IASB issued IFRS 9, as its first step in replacing IAS 39, Financial Instruments: Recognition and Measurement. Another version was issued on July 24, 2014 which supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted under certain circumstances before February 1, 2015.

IFRS 9 includes requirements for recognition and derecognition, measurement, impairment and general hedge accounting. IFRS 9 established two primary measurement categories for financial assets: (i) amortized cost; and (ii) fair value. Classification is based on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. Classification is made at the time the financial asset is initially recognized.

Although the classification criteria for financial liabilities did not change under IFRS 9, the fair value option requires fair value changes due to credit risk for liabilities designated at fair value through profit and loss generally to be recorded in net income and other comprehensive income (OCI).

IFRS 9 amended some of the requirements of IFRS 7, Financial Instruments: Disclosures, including added disclosures on equity securities measured at fair value through OCI, and guidance on financial liabilities and derecognition of financial instruments. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements; no material impact is expected.

#### **IFRS 10, Consolidated Financial Statements (IFRS 10) and IAS 28, Investments in Associates and Joint Ventures (IAS 28)**

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016 on a prospective basis. The Company is currently assessing the impact of the amendments to IFRS 10 and IAS 28 to its consolidated financial statements.

#### **IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (IFRS 11)**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3, Business Combinations. The amendment is effective for years

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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beginning on or after January 1, 2016 on a prospective basis. The Company does not anticipate any material impact to the Company's financial position or results of operations from adoption of this amendment.

#### **IFRS 15, Revenue from Contracts with Customers (IFRS 15)**

In May 2014, the IASB issued IFRS 15 to give guidance on revenue recognition and disclosures of information for users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 15 uses a single, principles-based, five-step model to be applied to all contracts with customers. The five steps are as follows:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 applies to all contracts with customers except for those that are governed under IAS 17 Leases, IFRS 4 Insurance Contracts, IFRS 9, IFRS 10, IFRS 11, IAS 27, Separate Financial Statements and IAS 28 and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

#### **IFRS 16, Leases (IFRS 16)**

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16 lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

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### Notes to Consolidated Financial Statements

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#### 6. Real estate inventory

Real estate inventory, including investment in co-ownerships, is as follows:

|   | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|
|   | <b>\$</b>    | <b>\$</b>    |
| Balance - Beginning of year                                 | 153,865,064  | 95,833,039   |
| Acquisitions - transfers from the shareholder (a) (note 33) | -            | 15,626,686   |
| Development costs (b)                                       | 4,913,578    | 6,988,814    |
| Transfer from pre-acquisition costs (note 7)                | -            | 1,060,468    |
| Government grant (c)  | -            | 148,750      |
| Transfer from investment property (d) (note 11)             | -            | 45,949,841   |
| Costs recovered from related party (e)                      | -            | (74,182)     |
| Adjustment to environmental provision (note 18)             | (929,654)    | (297,446)    |
| Costs written off to statement of income (f)                | (14,182,056) | (11,370,906) |
|   | <hr/>        | <hr/>        |
| Balance - End of year                                       | 143,666,932  | 153,865,064  |

- a) There were no acquisitions during the year. In 2014, the fair value of the acquisitions was calculated using property-specific appraisals which were adjusted for the estimated costs of improvements and the estimated costs to sell the asset. The inputs used to calculate the fair value contain unobservable inputs and thus would be considered to be Level 3 inputs. The appraisals were prepared by third-party appraisers using market sales data for similar properties where possible. The costs to complete and selling costs adjustment were determined using engineering reports and the judgment of management, and represent 16.6% of the appraised value.
- b) The development costs of \$4,913,578 (2014 - \$6,988,814) recorded as a cash outflow for the operating activities in the consolidated statements of cash flows was increased by an amount of \$326,466 (2014 - \$109,791) that was offset against environmental provisions. In 2014, the recorded cash outflow of development costs was further reduced by a recovery of \$74,182.

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Development costs                                  | 4,913,578   | 6,988,814   |
| Utilization of environmental provision (note 18)   | 326,466     | 109,791     |
| Development costs recovered from related party (e) | -           | (74,182)    |
|  | <hr/>       | <hr/>       |
|  | 5,240,044   | 7,024,423   |

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### Notes to Consolidated Financial Statements

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- c) In 2014, an accrual for the balance of a federally funded assistance grant to offset the cost of a feasibility studies was reversed due to a change in strategy.
- d) As at January 1, 2014, there was a transfer of \$45,949,841 from the investment property asset group to the real estate inventory group as a result of a change in intended use of the properties, now primarily to be developed and sold, aligned with the current strategic direction of the Company.
- e) The Company has a service agreement to assist in the sale of a property of a related party. Pursuant to the agreement, the Company can be reimbursed for certain costs incurred on and after August 1, 2013 and 20% of the net proceeds of the eventual sale. Non-recoverable costs are expensed to the consolidated statements of income and comprehensive income.
- f) Breakdown of costs written off to the consolidated statement of income and comprehensive income during the year is as follows:

|                                       | <b>2015</b>  | <b>2014</b>  |
|---------------------------------------|--------------|--------------|
|                                       | <b>\$</b>    | <b>\$</b>    |
| Cost of sales (note 22)               | (14,196,704) | (11,302,053) |
| Project investigative costs (note 30) | 14,648       | (68,853)     |
|                                       | <hr/>        | <hr/>        |
|                                       | (14,182,056) | (11,370,906) |
|                                       | <hr/>        | <hr/>        |

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## Notes to Consolidated Financial Statements

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**7. Pre-acquisition costs**

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
|  | \$          | \$          |
| Balance - Beginning of year                | 2,536,873   | 2,471,926   |
| Additions (a)                              | 417,181     | 1,620,780   |
| Transfer to real estate inventory (note 6) | -           | (1,060,468) |
| Transfer to related party (a)              | (296,913)   | (420,466)   |
| Costs written off to income statement (b)  | -           | (74,899)    |
|  | <hr/>       | <hr/>       |
| Balance - End of year                      | 2,657,141   | 2,536,873   |

- a) During the year ended December 31, 2015, the Company capitalized \$417,181 (2014 - \$1,620,780) of investigative and development costs related to properties that have not yet been acquired by the Company.

The additions reduced by the transfer to the related party amount of \$296,913 (2014 - \$420,466), are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

|                                    | <b>2015</b> | <b>2014</b> |
|------------------------------------|-------------|-------------|
|                                    | \$          | \$          |
| Additions                          | 417,181     | 1,620,780   |
| Costs recovered from related party | (296,913)   | (420,466)   |
|                                    | <hr/>       | <hr/>       |
|                                    | 120,268     | 1,200,314   |

- b) In 2014, the Company wrote off \$74,899 to the consolidated statement of income and comprehensive income.

|                                       | <b>2015</b> | <b>2014</b> |
|---------------------------------------|-------------|-------------|
|                                       | \$          | \$          |
| Project investigative costs (note 30) | -           | (74,899)    |
|                                       | <hr/>       | <hr/>       |



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### Notes to Consolidated Financial Statements

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#### 8. Due from related parties

|  | 2015<br>\$ | 2014<br>\$ |
|--|------------|------------|
| Due from City (a) (note 33)                          | 1,340,194  | 1,564,156  |
| Due from Toronto Port Lands Company (TPLC) (note 33) | 810,959    | 586,618    |
|  | <hr/>      | <hr/>      |
| Due from related parties                             | 2,151,153  | 2,150,774  |
|  | <hr/>      | <hr/>      |

- a) The balance is comprised of \$600,000 (2014 - \$1.5 million) held by the City in lieu of a servicing letter of credit and a deposit of \$30,000 (2014 - \$30,000) held by the City in lieu of a letter of credit for another site, net chargebacks owed by the City of \$272,669 (2014 - \$24,473) that remain outstanding at year-end and an amount of \$437,525 due from (2014 - \$9,683) Waterfront Secretariat, a division of the City.

#### 9. Amounts receivable - current

|   | 2015<br>\$ | 2014<br>\$ |
|---|------------|------------|
| Deferred rent and loan interest from PT Studios Inc. (PTSI)<br>(note 15(b)) | 129,000    | 102,820    |
| Rent receivable (a)   | 24,460     | 211,405    |
| Purchase price adjustment (b)   | 1,806,010  | 1,948,208  |
| HST refund  | 91,680     | 181,771    |
| Interest  | 426,574    | 150,284    |
| Insurance recovery  | -          | 29,998     |
| Deferred income (c)   | 200,000    | 200,000    |
| Other   | 91,644     | 148,231    |
|   | <hr/>      | <hr/>      |
|   | 2,769,368  | 2,972,717  |
|   | <hr/>      | <hr/>      |

- a) Amount relates to licence fees, common area maintenance and property taxes recoveries from various tenants.
- b) Amount relates to additional profit participation from sales of properties that took place in 2010 and 2011, of which \$142,198 related to the property sold in 2011 was received in January 2015.
- c) Interest free deferral of proceeds of \$200,000 (2014 - \$200,000) related to a secured parcel of land reserved by the City until completion of the installation of services at which point it will be released to the purchaser and the proceeds will be paid. A letter of credit has been issued with the Company as the beneficiary, giving it right to call for the full or partial payment at anytime up to January 22,

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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2017. The discounted value has been fully written back up and is expected to be received before the end of 2016.

#### 10. Cash and cash equivalents

|   | 2015              | 2014              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| Cash and cash equivalents   |                   |                   |
| GICs - various maturities within one year but<br>redeemable after 30 days of issue without<br>penalty | 51,975,000        | 26,234,375        |
| Short-term deposits   | 4,410,000         | 4,410,000         |
| Cash (a)  | 4,083,289         | 42,167,702        |
|   | <u>60,468,289</u> | <u>72,812,077</u> |

- a) Included in the balance is a funded amount of \$58,868 (2014 - \$67,142) restricted for use for a project that the Company acts as an agent for the City.

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#### 11. Investment property

| Expected use of investment property | December 31, 2015 |   |
|-------------------------------------|-------------------|---|
|                                     | Total<br>\$       | Land & land improvements -<br>Film studio<br>\$ |
| Balance - Beginning of year         | 14,650,000        | 14,650,000                                      |
| Net change in fair value            | 270,000           | 270,000   |
| Balance - End of year               | 14,920,000        | 14,920,000                                      |

| Expected use of investment property        | December 31, 2014 |              |              |                 |   |
|--|-------------------|--------------|--------------|-----------------|---|
|  | Total<br>\$       | Office<br>\$ | Retail<br>\$ | Mixed use<br>\$ | Land & land improvements -<br>Film studio<br>\$ |
| Balance - Beginning of year                | 60,349,841        | 8,539,377    | 19,034,138   | 18,376,326      | 14,400,000                                      |
| Transfer to real estate inventory (note 6) | (45,949,841)      | (8,539,377)  | (19,034,138) | (18,376,326)    | -   |
| Net change in fair value                   | 250,000           | -            | -            | -               | 250,000   |
| Balance - End of year                      | 14,650,000        | -            | -            | -               | 14,650,000                                      |

All investment properties, except the land and land improvements leased to the film studio, were transferred to inventory effective January 1, 2014. The film studio land, as an asset of BTHOI, is included in the security for the loan payable to a government agency (note 19(a)).

Investment property measured at fair value in the consolidated statements of financial position is categorized by level according to the significance of the inputs used to calculate their fair values. The Company uses significant unobservable inputs to adjust the fair values of its investment properties and accordingly the fair values are classified as Level 3 fair values. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 3 and either Level 1 or Level 2 fair value measurements during the year ended December 31, 2015.

The fair value of the film studio land and land improvements is estimated using discounted cash flows over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation. Inflation is assumed to be at 2% for the first 40 years and 4% beyond 40 years. The discount rate used was 5.5% (2014 - 5.5%). If the discount rate were to increase by 25 basis points (bps), the value of investment property

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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would decrease from \$14,920,000 to \$13,920,000. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from \$14,920,000 to \$16,050,000.

#### **Valuation processes**

Management is responsible for reviewing the fair value measurements included in the consolidated financial statements, including Level 3 fair values of the investment property. Management uses a valuations team that reviews the valuation for the investment property at each reporting period.

Periodically, the Company obtains an external valuation for the investment property. The external valuation utilized is prepared by independent professionally qualified valuers who hold a recognized relevant professional qualification and have recent experience in the location and category of the property. For a property subject to an independent valuation report, the valuations team verifies all major inputs to the valuation and reviews the results with the independent valuator.

In 2015, the Company utilized an internal valuation prepared at December 31, 2015 for the film studio investment property.

The valuation team reports directly to the Chief Financial Officer (CFO). Discussions of the valuation processes, key inputs and results are determined by the CFO and the valuation team, and reviewed with the Finance, Audit and Risk Management Committee (FARMC) at least annually.

Changes in Level 3 fair values are reviewed annually by the CFO, and with the FARMC and the valuation team.

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#### 12. Investment in Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.

The Company has classified its 20% interests, held through BTHOI, in Toronto Waterfront Studios Inc. (TWSI) and Toronto Waterfront Studios Development Inc. (TWSDI) as investments in associates as it has significant influence but does not have control or joint control over their operations. The investments in associates are accounted for using the equity method.

|   | TWSDI      |            | TWSI       |            |
|---|------------|------------|------------|------------|
|   | 2015<br>\$ | 2014<br>\$ | 2015<br>\$ | 2014<br>\$ |
| Balance - Beginning of year             | (30,733)   | 312,063    | 2,021,591  | 1,516,917  |
| Advances (a)                            | -          | -          | 705,902    | 336,243    |
| Transfer of advances (b)                | -          | (310,000)  | -          | 310,000    |
| Repayment of TWSI Put (c)               | -          | -          | (408,729)  | -          |
| Share of net income (loss)<br>(note 28) | (34,925)   | (32,796)   | 429,722    | (141,569)  |
| Balance - End of year                   | (65,658)   | (30,733)   | 2,748,486  | 2,021,591  |

- a) During the year ended December 31, 2015, two advances totalling \$705,902 (2014 - \$336,243) were made to TWSI.
- b) There was no transfer in the year. In 2014, advances of \$310,000 were transferred from TWSDI to TWSI.
- c) BTHOI's obligation to fund its 20% share of a provision to purchase 19.85% of the shares of another investor in Pinewood (the "TWSI Put") expired in August 2015. A refund of \$408,729 (2014 - \$nil) was received representing all funds contributed.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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For the years ended December 31, 2015 and December 31, 2014, TWSI and TWSDI reported the following financial positions and results from operations:

|   | TWSDI     |           | TWSI       |            |
|---|-----------|-----------|------------|------------|
|   | 2015      | 2014      | 2015       | 2014       |
|   | \$        | \$        | \$         | \$         |
| Current assets  | 20,804    | 20,897    | 7,138,283  | 3,535,607  |
| Non-current assets                                      | 5,350,060 | 5,299,310 | 44,088,560 | 48,316,177 |
| Current liabilities                                     | 6,199,148 | 5,473,866 | 35,218,872 | 6,245,614  |
| Non-current liabilities                                 | -         | -         | 14,011,803 | 45,758,612 |
| Revenue   | -         | -         | 11,561,964 | 9,518,983  |
| Net income (loss) from continuing operations            | (174,625) | (163,975) | 2,148,610  | (707,849)  |
| Net income (loss) and total comprehensive income (loss) | (174,625) | (163,975) | 2,148,610  | (707,849)  |

The Company's 20% share of income from TWSI and TWSDI for 2015 is \$394,797 (2014 - loss of \$174,365).

The ground lease for the film studio land with PTSI is for a term of 99 years and was executed on August 25, 2005. On June 22, 2009, PTSI was granted a deferral of 50% of the basic rent for a term of five years ended in June 2014. Commencing on June 22, 2014, deferred rent is to be repaid based on blended monthly payments of interest and principal over a 120-month period at a rate of 5.6%. Annual rent adjustments start June 22, 2027 and every subsequent 20-year anniversary thereafter. No dividends can be paid from PTSI unless and until any and all amounts due to the landlord have been paid. Rent until the next annual rent adjustment date is \$517,115 per annum.

The investment in equity accounted investments includes \$2,610,940 (2014 - \$2,313,767) advanced to TWSI and TWSDI. The rate of interest and the repayment for this advance is subject to approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the year.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 13. Joint arrangements

##### Investment in joint venture

|                             | 2015<br>\$ | 2014<br>\$ |
|-----------------------------|------------|------------|
| Balance - Beginning of year | 12,157,658 | 12,148,713 |
| Legal fees                  | -          | 8,945      |
| Contributions               | 10,601,287 | -          |
| Share of net loss (note 28) | (119,930)  | -          |
|                             | <hr/>      | <hr/>      |
| Balance - End of year       | 22,639,015 | 12,157,658 |

BTHHI has a 35% ownership of a general partnership (the Partnership) for the development of the property at 10 York Street.

The Company has classified its 35% interest in the Partnership as a joint venture. In doing so, the Company considered the terms and conditions of the partnership agreement and the purpose and design of the joint arrangement and accounts for its interest using the equity accounting method. The purpose of the joint venture is to develop and construct a condominium project on the site, and distribute the returns to the partners once these are sold.

During 2015, the Company funded equity contributions of \$10,601,287 (2014 - \$nil) fulfilling its contractual obligation.

| Name                               | Principal activity | Location         | Ownership interest (%) |      |
|------------------------------------|--------------------|------------------|------------------------|------|
|                                    |                    |                  | 2015                   | 2014 |
| 120-130 Harbour Street Partnership | Inventory          | Toronto, Ontario | 35                     | 35   |

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

December 31, 2015

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For the years ended December 31, 2015 and December 31, 2014, the Partnership reported the following financial positions and results from operations:

|                                       | <b>2015</b> | <b>2014</b> |
|---------------------------------------|-------------|-------------|
|                                       | <b>\$</b>   | <b>\$</b>   |
| Cash and cash equivalents             | 1,057,476   | 201,375     |
| Current assets                        | 47,910,353  | 47,094,503  |
| Non-current assets                    | 99,568,095  | 69,163,638  |
| <br>                                  |             |             |
| Total current liabilities             | 9,221,506   | 13,675,926  |
| Non-current liabilities               | 84,782,274  | 60,440,087  |
| <br>                                  |             |             |
| Loss from continuing operations       | 600,659     | 3,877,450   |
| <br>                                  |             |             |
| Net loss and total comprehensive loss | 600,659     | 3,877,450   |

Losses are allocated to the other partner of the Partnership until the first advance date of construction financing. Subsequent to the first advance date of construction financing, which occurred on July 3, 2015, losses are allocated in proportion to the aggregate capital contributions of the partners. Income is allocated first to the other partner of the Partnership to the extent of previously allocated losses prior to the first advance date of construction financing. The Partnership has incurred cumulative losses of \$10,467,856 (2014 - \$9,867,197) as at December 31, 2015 of which \$10,347,926 (2014 - \$9,867,197) have been allocated to the other partner.



## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### Investment in joint operation

The Company had classified its 50% interest in the property at Ordnance and Strachan as a joint operation. In doing so, the Company considered the terms and conditions of the co-ownership agreements and the purpose and design of the joint arrangement. The purpose of the arrangement was to co-develop the residential site with each group having direct rights to its share of assets and direct obligations for its share of liabilities. As a result the Company recorded its share of the asset as inventory along with its share of liabilities and revenues and expenses in its consolidated financial statements.

On October 29, 2015, the joint operation disposed of the co-owned inventory properties, which were previously accounted for by recognizing the Company's share of the assets, liabilities, revenues and expenses on a line-by-line basis. After the disposition, the joint operation continues to own a parcel of land that must be re-conveyed in "Base Park" condition to the City at no cost, and accordingly the land is valued at nil. The financial obligations for the parkland improvements have been transferred to the purchaser (note 35).

| Name               | Principal activity | Location         | Ownership interest (%) |      |
|--------------------|--------------------|------------------|------------------------|------|
|                    |                    |                  | 2015                   | 2014 |
| Ordnance/ Strachan | Inventory          | Toronto, Ontario | 50                     | 50   |

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

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**14. Property, equipment and intangible assets**

|  | Leasehold<br>improvements<br>\$ | Furniture and<br>fixtures, office<br>equipment and<br>software licence<br>\$<br>(a) | Computer<br>equipment<br>\$<br>(a) | Total<br>\$    |
|--|---------------------------------|---|------------------------------------|----------------|
| Balance – December 31, 2014                  |                                 |   |                                    |                |
| Cost   | 831,508                         | 540,166   | 76,842                             | 1,448,516      |
| Accumulated depreciation<br>and amortization | (386,375)                       | (476,832)   | (50,042)                           | (913,249)      |
|  | <u>445,133</u>                  | <u>63,334</u>   | <u>26,800</u>                      | <u>535,267</u> |
| Opening net book value -<br>January 1, 2014  | 525,989                         | 139,156   | 51,398                             | 716,543        |
| Additions                                    | -                               | 33,900  | 2,761                              | 36,661         |
| Less: Depreciation and<br>amortization       | (80,856)                        | (109,722)   | (27,359)                           | (217,937)      |
| Ending net book value –<br>December 31, 2014 | <u>445,133</u>                  | <u>63,334</u>   | <u>26,800</u>                      | <u>535,267</u> |
| Opening net book value -<br>January 1, 2015  | 445,133                         | 63,334  | 26,800                             | 535,267        |
| Additions                                    | -                               | 24,070  | 74,130                             | 98,200         |
| Less: Depreciation and<br>amortization       | (80,856)                        | (39,521)  | (25,328)                           | (145,705)      |
| Ending net book value –<br>December 31, 2015 | <u>364,277</u>                  | <u>47,883</u>   | <u>75,602</u>                      | <u>487,762</u> |
| Balance – December 31, 2015                  |                                 |   |                                    |                |
| Cost   | 831,508                         | 111,218   | 110,780                            | 1,053,506      |
| Accumulated depreciation<br>and amortization | (467,231)                       | (63,335)  | (35,178)                           | (565,744)      |
|  | <u>364,277</u>                  | <u>47,883</u>   | <u>75,602</u>                      | <u>487,762</u> |

- a) During the year ended December 31, 2015, fully amortized furniture and fixtures and computer equipment totalling \$453,018 and \$40,192 respectively (2014 – fully amortized computer equipment totalling \$119,217) were removed from the Company's books.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 15. Amounts receivable - non-current

|                                 | 2015<br>\$      | 2014<br>\$      |
|---------------------------------|-----------------|-----------------|
| Loan interest due from TWSI (a) | 317,917         | 288,903         |
| Deferred rent (b)               | 1,033,728       | 1,141,961       |
|                                 | <hr/> 1,351,645 | <hr/> 1,430,864 |

- a) The balance represents the present value of deferred loan interest of \$317,917 due in 2039 (2014 - \$288,903).
- b) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and PTSI (as tenant), PTSI was given a deferral of 50% of basic rent payable on an interest free basis for a period of five years, starting June 22, 2009 (note 9). Commencing on June 22, 2014, deferred rent is being repaid based on blended monthly payments of interest and principal over a ten-year period at a rate of 5.6%.

#### 16. Loans receivable

|                                  | 2015<br>\$       | 2014<br>\$       |
|----------------------------------|------------------|------------------|
| Loan receivable - PTSI (a)       | 33,403,778       | 33,403,778       |
| Deferred payment loan - TWSI (b) | -                | 2,758,988        |
| Vendor-take-back mortgage (c)    | -                | 1,589,778        |
|                                  | <hr/> 33,403,778 | <hr/> 37,752,544 |
| Total                            | 33,403,778       | 37,752,544       |
| Less: Current portion            | <hr/> 33,403,778 | <hr/> 36,162,766 |
| Non-current loans receivable     | <hr/> -          | <hr/> 1,589,778  |

- a) In 2011, the Company assisted TWSI in restructuring debt by obtaining a new long-term facility with a government agency (note 19(a)). The new facility was interest-only for the first three years of the term (matured on December 23, 2014) and was available to a maximum of \$34,500,000. The agreement provided for conversion of the facility to a 25-year amortizable debenture. The Company drew \$33,406,788 and advanced \$33,403,778 to PTSI. The terms of current facility have been extended while the terms of the amortizable debenture are finalized. The interest rate as at December 31, 2015, of 1.8% (2014 - 2.0542%) is reset monthly at the government agency's average monthly cost of funds. The loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.
- b) As part of a trailing obligation upon restructuring and investing in TWSI in 2009, on June 15, 2011, the Company provided a loan in the amount of \$3,660,917 to TWSI and set up a loan payable with identical terms as with TPLC described in note 19. The loan originally bore interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest paid on June 23, 2012, and maturity on June 23, 2014.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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On June 24, 2014, an amended agreement was signed with the maturity date of the loan extended to June 24, 2015. At the same time, TWSI repaid principal of \$1,000,000 and accepted a 1% increase in interest rate to 7% per annum. On June 24, 2015, TWSI fully repaid the principal and interest totalling \$2,848,293.

- c) During 2015, the Company received the full amount of principal and accrued interest of the VTB mortgage from a real estate inventory sale transaction in 2012, secured on the respective land parcel, with an interest rate of 6.5% and a maturity date of November 16, 2016.

#### 17. Amounts payable and other liabilities

|   | 2015<br>\$ | 2014<br>\$ |
|---|------------|------------|
| Trade payables - general                    | 888,603    | 700,747    |
| Accruals                                    | 1,850,435  | 2,830,401  |
|   | <hr/>      | <hr/>      |
| Total payables and accrued liabilities      | 2,739,038  | 3,531,148  |
| <br>  |            |            |
| Deferred lease inducement                   | 246,073    | 300,745    |
| Deferred lease escalations                  | 106,631    | 116,201    |
| Revenue received in advance                 | 84,894     | 6,436      |
| Construction holdbacks                      | 74,843     | 68,922     |
|   | <hr/>      | <hr/>      |
| Total amounts payable and other liabilities | 3,251,479  | 4,023,452  |

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 18. Environmental provision

The environmental provision is calculated using management's best estimate based on third-party engineering reports of the likely costs to remediate or mitigate current known site conditions. Costs are assessed on a site by site basis and range from full removal of historic fills to risk assessment and management measures to reduce remedial requirements.

The risks inherent in calculating the future environmental provision are: the timing of expenditures to remediate, potential changes in environmental legislation and the identification of all known issues and end use of the property.

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Balance - Beginning of year                         | 17,325,098  | 17,498,020  |
| Additions (note 33)                                 | -           | 334,050     |
| Utilized in year (a)                                | (326,466)   | (909,791)   |
| Adjustment to real estate inventory (b) (note 6)    | (929,654)   | (297,446)   |
| Accretion (c)                                       | 945,613     | 1,159,908   |
| Costs written off to net income on sale of property | -           | (459,643)   |
|   | <hr/>       | <hr/>       |
| Total - End of year                                 | 17,014,591  | 17,325,098  |
| Less: Current portion                               | (518,665)   | (5,491,248) |
|   | <hr/>       | <hr/>       |
| Non-current environmental provision                 | 16,495,926  | 11,833,850  |

- a) In 2015, costs of \$326,466 (2014 - \$109,791) previously capitalized in the real estate inventory were transferred to the provision. In 2014, provision of \$800,000 was transferred on sale of an inventory property.
- b) In 2015, the provision was reduced by \$929,654 (2014 - \$297,446) as a result of the change in discount rate and timing of the remediation costs, which resulted in a corresponding downward adjustment in the real estate inventory (note 6).
- c) The Company measures the environmental provision at net present value with a discount rate which reflects the shareholder's WACC of 5.8% (2014 - 5.9%). During the year ended December 31, 2015, an accretion amount of \$945,613 (December 31, 2014 - \$1,159,908) was recognized as financing cost in the consolidated net income and comprehensive income.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 19. Debt

|                                      | 2015<br>\$ | 2014<br>\$ |
|--------------------------------------|------------|------------|
| Loan payable - government agency (a) | 33,406,788 | 33,406,788 |
| Deferred loan payable to TPLC (b)    | -          | 2,758,988  |
|                                      | <hr/>      | <hr/>      |
| Total Debt                           | 33,406,788 | 36,165,776 |

- a) As mentioned in note 16(a) the facility from a government agency was drawn on in June 2013 to provide financing assistance for PTSI. The loan facility agreement provided for conversion of the facility to a 25-year amortizable debenture on the maturity date of December 2014. The Company's ability to fix the interest rate on the new facility within the first three years of the term has been extended and is now reset monthly to the government agency's average monthly cost of funds borrowing rate, currently at 1.8% (2014-2.0542%). This remains an interest-only facility until the fixed-rate facility is arranged with the government agency which is currently being negotiated.

The loan is secured by the assets and corporate guarantees of BTHOI, the future leasehold charge related to the land lease on additional expansion lands to be developed, the Company and the common shares of PTSI.

- b) As part of a trailing obligation to a former shareholder, upon restructuring and investing in TWSI in 2009, related to post-closing adjustments of the share purchase price, on June 15, 2011, the Company provided a loan on TPLC's behalf in the amount of \$3,660,917 to TWSI described in note 16 and set up a loan payable with identical terms with TPLC. The loan bore interest at 6% per annum, with interest calculated in arrears annually with the first and second payments of interest paid on June 23, 2012 and July 23, 2013, respectively, and matured on June 23, 2014.

On June 24, 2014, an amended agreement was signed with the maturity date of the loan extended to June 24, 2015. At the same time that the amendment was signed, the Company repaid principal of \$1,000,000 and accepted a 1% increase in interest rate to 7% per annum. On June 24, 2015, the Company fully repaid the principal and interest totalling \$2,848,293.

#### 20. Shareholder's equity

- a) Common share - As at December 31, 2015, one (2014 - one) common share is authorized, issued and outstanding.
- b) Dividends - Dividend of \$15 million was declared and paid during the year ended December 31, 2015 (2014 - \$nil).

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 21. Sales

The Company had the following sales during the year:

|                       | 2015<br>\$ | 2014<br>\$ |
|-----------------------|------------|------------|
| Real estate inventory | 22,460,890 | 33,128,798 |

During the year ended December 31, 2015, the Company's joint operation sold its 50% co-owned properties (note 13). During the year ended December 31, 2014, the Company sold two real estate inventory properties for proceeds of \$28,600,000. In addition, during 2014, the Company received additional profit participation of \$4,528,798 from the sale of properties that took place in September 2011 and August 2012.

#### 22. Cost of sales

The cost of sales is comprised as follows:

|  | 2015<br>\$ | 2014<br>\$ |
|--|------------|------------|
| Land   | 6,555,000  | 8,854,404  |
| Capitalized costs                              | 7,403,419  | 2,356,705  |
| Legal and commissions                          | 238,285    | 90,944     |
| Real estate inventory cost of sales note 6(f)) | 14,196,704 | 11,302,053 |
| Reversal of environmental provision (note 18)  | -          | (459,643)  |
| Commission and legal fees                      | (5,000)    | 354,000    |
| Total cost of sales of real estate inventory   | 14,191,704 | 11,196,410 |

#### 23. Rental revenue

Rental revenue is comprised as follows:

|  | 2015<br>\$ | 2014<br>\$ |
|--|------------|------------|
| Leases   | 517,114    | 517,114    |
| Licences                                       | 631,131    | 453,435    |
| Recoverable operating costs and property taxes | 1,518,854  | 2,229,278  |
| Total rental revenue                           | 2,667,099  | 3,199,827  |

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2015

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#### 24. Property operating costs

Property operating costs are comprised as follows:

|   | 2015<br>\$ | 2014<br>\$ |
|---|------------|------------|
| Utilities, repairs and maintenance and security | 36,653     | 136,834    |
| Insurance                                       | 40,413     | 7,350      |
| Property taxes                                  | 1,526,174  | 2,249,762  |
| Bad debt expense                                | -          | 60,318     |
|   | <hr/>      | <hr/>      |
| Total operating costs                           | 1,603,240  | 2,454,264  |

#### 25. Guarantee fee

|               | 2015<br>\$ | 2014<br>\$ |
|---------------|------------|------------|
| Guarantee fee | 18,467     | 36,930     |
|               | <hr/>      | <hr/>      |

To assist PTSI in securing the convertible loan facility, the Company provides additional asset guarantees as required by the lender. The guarantee fee which is paid annually on the anniversary date of the loan starting March 18, 2011 is 1% of the 80% of the additional asset value and this rate reduces by 50% each year until the 5th anniversary.

#### 26. Project management fees

|                              | 2015<br>\$ | 2014<br>\$ |
|------------------------------|------------|------------|
| Bridge and path project (a)  | 290,000    | -          |
| Other                        | 10,000     | -          |
|                              | <hr/>      | <hr/>      |
| Total project management fee | 300,000    | -          |

- a) Pursuant to an agreement entered into in June 2014 between the City and the Company, the Company has been appointed as the City's agent to oversee the design/build process and construction of a pedestrian and cycling bridge and path on certain lands. To fulfil its obligations, the Company engages third-party suppliers to manage the execution and performance of the work, and the related costs are fully funded by the City through periodic draw requests; in return, the Company receives project management fees.



**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

December 31, 2015

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**27. Interest income**

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Investments  | 608,764     | 333,961     |
| Mortgage receivable interest                           | 170,194     | 1,392,496   |
| Loan interest  | 724,848     | 903,600     |
| Bank interest income                                   | 34,813      | 24,583      |
| Other  | 256         | 6,620       |
|  | <hr/>       | <hr/>       |
| Total interest income                                  | 1,538,875   | 2,661,260   |
| Deduct:  |             |             |
| Amortization of interest differential loan discount    | (29,014)    | (29,014)    |
| Amortization of deferred revenue discount              | -           | (6,611)     |
|  | <hr/>       | <hr/>       |
| Total amortization of non-cash interest income         | (29,014)    | (35,625)    |
|  |             |             |
| Change in accrued loans receivable interest            | 295,811     | 961,553     |
| Change in GIC and short-term deposits interest accrued | (276,291)   | (7,466)     |
|  | <hr/>       | <hr/>       |
| Cash interest received                                 | 1,529,381   | 3,579,722   |
|  | <hr/>       | <hr/>       |

Certain amounts receivable have been adjusted to fair value using the estimated market interest rate at the time they were assumed or issued. These fair value adjustments were amortized to interest income over the expected life of the receivable using the effective interest rate method. Non-cash adjustments to interest income have been recorded as items not involving cash in the consolidated statements of cash flows.

**28. Net income (loss) from equity accounted investment**

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| TWSDI (note 12)                                     | (34,925)    | (32,796)    |
| TWSI (note 12)                                      | 429,722     | (141,569)   |
|   | <hr/>       | <hr/>       |
| 120-130 Harbour Street Partnership (note 13)        | 394,797     | (174,365)   |
|   | (119,930)   | -           |
|   | <hr/>       | <hr/>       |
| Net income (loss) from equity accounted investments | 274,867     | (174,365)   |
|   | <hr/>       | <hr/>       |

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

December 31, 2015

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**29. General and administrative expenses**

General and administrative costs, net of allocations to TPLC (note 33), consist of the following:

|   | <b>2015</b>      | <b>2014</b>      |
|---|------------------|------------------|
|   | \$               | \$               |
| Salaries and benefits                     | 5,224,453        | 5,492,492        |
| Restructuring costs                       | -                | 1,231,944        |
| Office services                           | 448,103          | 397,750          |
| Office occupancy                          | 635,758          | 667,611          |
| Professional fees                         | 220,559          | 308,221          |
| Marketing and promotion                   | 101,593          | 120,808          |
|   | <hr/>            | <hr/>            |
|   | 6,630,466        | 8,224,401        |
| Less: allocation to TPLC                  | -                | (5,575)          |
|   | <hr/>            | <hr/>            |
| Total general and administrative expenses | <u>6,630,466</u> | <u>8,218,826</u> |

**30. Project investigative costs**

|  | <b>2015</b>     | <b>2014</b>    |
|--|-----------------|----------------|
|  | \$              | \$             |
| Studies and surveys                          | -               | 17,942         |
| Real estate inventory write-offs (note 6(f)) | (14,648)        | 68,853         |
| Pre-acquisition costs write-offs (note 7(b)) | -               | 74,899         |
| Other  | 775             | -              |
|  | <hr/>           | <hr/>          |
| Total project investigative costs            | <u>(13,873)</u> | <u>161,694</u> |

**31. Finance costs**

|                                   | <b>2015</b>    | <b>2014</b>    |
|-----------------------------------|----------------|----------------|
|                                   | \$             | \$             |
| Interest expense incurred on debt | 695,890        | 874,647        |
| Other                             | 3,327          | 1,513          |
|                                   | <hr/>          | <hr/>          |
| Total finance costs               | 699,217        | 876,160        |
| Add (deduct):                     |                |                |
| Change in debt accrued interest   | 105,284        | 15,652         |
|                                   | <hr/>          | <hr/>          |
| Cash interest paid                | <u>804,501</u> | <u>891,812</u> |

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

December 31, 2015

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**32. Supplemental cash flow information**

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Decrease in due from related parties              | 173,777     | 3,157,815   |
| Decrease in amounts receivable                    | 570,139     | 161,206     |
| Increase in prepaid expenses                      | (317,599)   | (123,678)   |
| Decrease in loans receivable                      | 1,589,778   | 21,594,483  |
| Decrease in amounts payable and other liabilities | (836,215)   | (358,939)   |
| Decrease in environmental provision               | -           | (800,000)   |
|   | <hr/>       | <hr/>       |
| Changes in non-cash working capital               | 1,179,880   | 23,630,887  |

**Supplementary information**

|   |           |           |
|---|-----------|-----------|
| Interest received during the year (note 27) | 1,529,381 | 3,579,722 |
| Interest paid during the year (note 31)     | 804,501   | 891,812   |

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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### 33. Related parties

In addition to related party transactions and balances discussed elsewhere in the notes, the relationship and transactions with the Company's shareholder, the City, and other related parties are detailed below:

| Related parties  | Relationship                 |
|--|------------------------------|
| City of Toronto Economic Development Corporation<br>(operating as Toronto Port Lands Company (TPLC)) | same parent                  |
| Toronto Transit Commission (TTC)   | same parent                  |
| Toronto Hydro-Electric Systems Limited (THSL)  | same parent <sup>1</sup>     |
| Toronto Community Housing Corporation  | same parent                  |
| Toronto Waterfront Studios Inc. (TWSI)   | investee, tenant, debtor     |
| Toronto Waterfront Studios Development Inc. (TWSDI)  | debtor, investee             |
| Directors  | directors                    |
| Key management   | key management               |
| Ontario Municipal Employees Retirement System (OMERS)  | post-employment benefit plan |

#### The City

During the year ended December 31, 2015, there were no transfers of properties from the shareholder to the Company, the increase in the contributed surplus of \$174,156 was the result of the additional proceeds transferred to the Company by TPLC (part (a) below). In 2014, the shareholder transferred a property to the Company which had a fair value at the time of transfer of \$15,626,686 (note 6) with a corresponding environmental provision of \$334,050 (note 18). The transfer was recorded as an increase of contributed surplus of \$15,292,636.

The consolidated statements of financial position include the following balances related to the City:

|                                       | 2015      | 2014      |
|---------------------------------------|-----------|-----------|
|                                       | \$        | \$        |
| Development costs                     | 895,176   | 627,336   |
| Due from related parties (a) (note 8) | 1,340,194 | 1,564,156 |
| Prepaid expenses                      | -         | 29,599    |
| Amounts payable and other liabilities | 341,812   | 826,575   |

- a) Balance is comprised of amounts of \$902,669 (2014 - \$1,554,473) and \$437,525 (2014 - \$9,683) due from the City and Waterfront Secretariat, a division of the City.

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<sup>1</sup> Toronto Hydro-Electric Systems Limited is a wholly-owned subsidiary of Toronto Hydro Corporation which in turn is a wholly-owned subsidiary of the City.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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The Company had transactions with the City in its ordinary course of business throughout the year. Transactions, both revenue and (expenses) with the City, which passed through net income during the year were as follows:

|   | 2015<br>\$  | 2014<br>\$  |
|---|-------------|-------------|
| Project management fees                         | 300,000     | -           |
| Cost of sales                                   | -           | (1,500)     |
| Utilities, repairs and maintenance and security | -           | (50,303)    |
| Property taxes (note 24)                        | (1,526,174) | (2,249,762) |
| General and administrative expenses             | (29,396)    | (3,080)     |

In addition, the Company declared and paid dividends of \$15 million to the City during the year (2014 - \$nil).

#### Toronto Port Lands Company

The consolidated statements of financial position include the following balances related to TPLC:

|                                       | 2015<br>\$ | 2014<br>\$ |
|---------------------------------------|------------|------------|
| Due from related parties (a) (note 8) | 810,959    | 586,618    |
| Debt - current (b) (note 19)          | -          | 2,758,988  |

- a) In 2008, the City designated the net proceeds of two parcels of land to be transferred from TPLC to the Company. The Company received net proceeds of \$11,881,479 from TPLC over the years and in 2015, it received additional proceeds of \$174,156. These amounts have been reflected in due from related parties with a corresponding increase in the contributed surplus.

The Company provided consulting and property management service on a property for TPLC pursuant to an agreement entered into in 2014. The Company negotiated with a potential purchaser on the property on behalf of TPLC but the sale did not materialize and the non-refundable deposit paid by the potential purchaser and operating costs related to the property were also included in the balance. During the year ended December 31, 2015, the Company incurred costs on behalf of TPLC of \$50,185 (2014 - \$74,182).

There is no set term of repayment of this account balance and no interest is being charged to TPLC.

- b) During the year, the Company repaid the principal of \$2,660,917 (2014 - \$1,000,000) and loan interest of \$187,376 (2014 - \$219,655) when the deferred payment loan came due and was received from TWSI.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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The Company had transactions with TPLC in its ordinary course of business throughout the year. An arrangement whereby certain office services and staffing costs were shared with TPLC ended in 2014 with the restructuring. The allocation of these costs was calculated on a time spent basis, as highlighted in note 29. Expenses that passed through the consolidated statement of income and comprehensive income were as follows:

|   | 2015<br>\$ | 2014<br>\$ |
|---|------------|------------|
| General and administrative expenses (note 29) | -          | (5,575)    |
| Finance costs                                 | (89,305)   | (202,182)  |

#### Toronto Transit Commission

The Company had transactions with the TTC in its ordinary course of business throughout the year. The consolidated statements of financial position include the following balances related to the TTC:

|                       | 2015<br>\$ | 2014<br>\$ |
|-----------------------|------------|------------|
| Real estate inventory | 1,000      | -          |
| Pre-acquisition costs | -          | 10,000     |

Transactions with the TTC passed through the consolidated statements of income and comprehensive income during the year were as follows:

|                            | 2015<br>\$ | 2014<br>\$ |
|----------------------------|------------|------------|
| Recoverable property taxes | 330,698    | 963,224    |

#### Toronto Hydro-Electric Systems Limited

The Company had transactions with the THSL in its ordinary course of business throughout the year. The consolidated statements of financial position include the following balances related to the THSL:

|                           | 2015<br>\$ | 2014<br>\$ |
|---------------------------|------------|------------|
| Real estate inventory (a) | 118,418    | 125,220    |

a) Amount represented capitalized utility costs for properties under development.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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Transactions with the THSL passed through the consolidated statements of income and comprehensive income during the year were as follows:

|                             | 2015<br>\$ | 2014<br>\$ |
|-----------------------------|------------|------------|
| Property operating expenses | (33,857)   | (78,568)   |

### Pinewood Toronto Studios Inc., Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.

The consolidated statements of financial position include the following balances related to PTSI, TWSI and TWSDI:

|  | 2015<br>\$ | 2014<br>\$ |
|--|------------|------------|
| Amounts receivable - current (note 9)                    | 129,000    | 102,820    |
| Loans receivable - current (note 16)                     | 33,403,778 | 36,162,766 |
| Investment in equity accounted investments (a) (note 12) | 2,682,828  | 1,990,858  |
| Amounts receivable - non-current (note 15)               | 1,351,645  | 1,430,864  |
| Amounts payable and other liabilities                    | 3,219      | 6,436      |

- a) The Company, through BTHOI, holds 20% equity interests in TWSI and TWSDI (note 12). The original investment was held by TPLC and transferred to the Company to facilitate debt restructuring on behalf of TWSI as part of the Company's city-building mandate.

Land, land improvements, shares and a shareholder loan receivable were transferred from TPLC in 2009. At December 2009, the Company purchased TWSI's debt, and through a series of transactions, refinanced the loan on March 18, 2011 with a government agency at a favourable rate and provided the Company's corporate guarantee, for which a guarantee fee is charged. The Company's debt as described in note 19 is a result of the restructuring and assistance provided by the Company to TWSI.

The Company had transactions with PTSI and TWSI throughout the year and the revenue which passed through the consolidated statements of income and comprehensive income was as follows:

|   | 2015<br>\$ | 2014<br>\$ |
|---|------------|------------|
| Rental revenue and recoverable property taxes   | 1,585,640  | 1,582,522  |
| Share of net income (loss) from equity from equity<br>accounted investments (note 28) | 394,797    | (174,365)  |
| Guarantee fee (note 25)   | 18,467     | 36,930     |
| Interest income   | 791,162    | 987,297    |

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Key management and director compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company's key management personnel include the members of the Board of Directors, the President and Chief Executive Officer, CFO and the Senior Vice Presidents. The compensation paid or payable to the key management and directors is shown below:

|  | 2015<br>\$      | 2014<br>\$      |
|--|-----------------|-----------------|
| Salaries and other short-term employee benefits and termination benefits | 1,170,762       | 1,388,300       |
| Directors' fees  | 132,000         | 138,250         |
|  | <hr/> 1,302,762 | <hr/> 1,526,550 |

#### Post-employment benefit plan

All of the Company's permanent employees participate in a pension plan through OMERS. The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entities participating in the plan and therefore the Company does not recognize any share of the OMERS pension surplus or deficit. The Company's current service contributions to the OMERS pension plan for the year ended December 31, 2015, which are expensed, totalled \$448,327 (2014 - \$460,919) and are included in salaries and employee benefits expense in the consolidated statements of income and comprehensive income.

The Company's liability related to the plan is not greater than the current annual contribution amounts due. The expected contributions to the plan for 2016 are estimated to be \$520,009.



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### Notes to Consolidated Financial Statements

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#### 34. Commitments and contingencies

##### Operating Leases

Future minimum annual lease payments on the 200 King Street West office are as follows:

|      | \$        |
|------|-----------|
| 2016 | 310,750   |
| 2017 | 310,750   |
| 2018 | 310,750   |
| 2019 | 310,750   |
| 2020 | 155,375   |
|      | <hr/>     |
|      | 1,398,375 |
|      | <hr/>     |

During the year ended December 31, 2015, the Company paid \$282,500 (2014 - \$282,500) in minimum lease payments with respect to the lease of the office premise, and operating lease payments of \$17,606 (2014 - \$17,629) for office equipment, which have been included in the net income for the year.

##### Investment in TWSI and TWSDI

From time to time, BTHOI receives cash funding calls from the operations of TWSI and TWSDI for the construction of film studios and office premises, which it is obligated to fund, at an amount equivalent to 20% of its equity ownership of the cash requirements. For the year ended December 31, 2015, BTHOI funded \$705,902 (2014 - \$336,243) to TWSI and made no funding (2014 - \$nil) to TWSDI. The Company's future commitments are determined through ongoing negotiations with the investees and investors.

The TWSI Put Option Agreement expired on June 24, 2015, and as a result BTHOI is no longer contingently liable to fund its share of the provision to purchase 19.85% of the shares of one of the other investors of TWSI. In December 2015, BTHOI received the full repayment of the TWSI Put Option monies in the amount of \$408,729 which it contributed over the years.

##### Investment in joint operation

Pursuant to the requirements of the original transfer agreement with the City, the Company is required to deliver park lands of a certain condition and to ensure compliance with Section 37 of the Planning Act (Section 37) requirements associated with the site. With the sale of the final phase of the site on October 29, 2015, the financial obligations related to the park and the Section 37 requirements were assumed by the purchasers; however, the Company remains responsible to oversee and ensure that the trailing obligations are met.

As part of the trailing obligations, the Company is also required to assist in the provision of a certain number of affordable housing units by providing financial assistance to the purchasers of those units. The Company estimates total costs of \$1,575,000 to be incurred in the future.

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### Notes to Consolidated Financial Statements

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#### Trailing obligations

Pursuant to a sale of land in December 2012, the Company was liable to complete the installation of sanitary sewers and water mains servicing the property sold. The project was substantially complete in August 2014. The Company is responsible to address any deficiencies which occur in the next twenty-four months and management does not expect any such amount to be material.

#### Litigation

In the normal course of its operations, the Company from time to time, may be named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, management intends to vigorously defend them and does not expect they will have a material effect on the Company's business, financial condition or operations.

### 35. Capital management

The Company's capital is comprised of debt and shareholder's equity. The following table summarizes the carrying value of the Company's capital as at December 31, 2015 and 2014.

|                      | 2015<br>\$         | 2014<br>\$         |
|----------------------|--------------------|--------------------|
| Shareholder's equity | 234,057,953        | 245,555,671        |
| Debt                 | 33,406,788         | 36,165,776         |
|                      | <u>267,464,741</u> | <u>281,721,447</u> |

The Company manages its capital, taking into account the long-term business objectives of the Company and the Company's mandate of delivering a financial dividend to the shareholder and to achieving its city-building objectives. Value-added monetized asset sales, financing fees, and land rent from properties transferred from the shareholder and related parties have provided cash for operations and to fund investigative, development, capital improvements and operations. The Company's capital management strategy is to utilize these sources of funds, obtain third party financing where possible, retain funds for operations and release any surplus funds to the shareholder. The current loans payable and loans receivable closely mirror the same terms.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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#### **36. Financial instruments - risk management**

The Company's investing, financing and operating activities expose it to a range of financial risks. These risks include credit risk, interest rate risk and liquidity risk, which are described as follows:

##### **Credit risk**

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligation to the Company. The carrying value of the financial assets as presented in the consolidated statements of financial position represents the maximum credit risk exposure at the dates of the consolidated financial statements.

The Company, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that management believes the Company has thorough and rigorous credit approval procedures. The Company provides for an allowance for doubtful accounts to absorb potential credit losses when required. During the year ended December 31, 2015, no allowance for doubtful accounts was recorded (2014 - \$nil) and no bad debt (2014 - \$60,318) was written off to the consolidated statements of income and comprehensive income.

The loan receivable from TWSI is collateralized with a leasehold mortgage and \$4.0 million in guarantees from the shareholders of TWSI. As such, in the event of default, the Company can take title and liquidate the assets of TWSI and enforce the guarantees. The cash and cash equivalents and short-term investments are held by a Schedule 1 Canadian financial institution.

##### **Interest rate risk**

Interest rate risk is borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its loan payable, the interest rate of which is based on the government agency's average borrowing rate until the rate is fixed, and its cash balances. As at December 31, 2015, a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately \$334,068. Any increase would be passed along to TWSI as loan interest receivable.

The deferred rent mortgage due from Pinewood is not subject to interest rate risk as the interest rate is fixed at 5.6%.

## Build Toronto Inc.

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#### Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. Management believes the liquidity risk of the Company is low. As at December 31, 2015, all obligations of the Company discussed in note 19 are due within one year.

An analysis of the Company's contractual maturities of its material financial liabilities is set out below:

|      | Payments Due by Year  |                       |                       |                  | Total<br>\$ |
|------|-----------------------|-----------------------|-----------------------|------------------|-------------|
|      | 2016 to<br>2017<br>\$ | 2018 to<br>2019<br>\$ | 2020 to<br>2021<br>\$ | Thereafter<br>\$ |             |
| Debt | 33,406,788            | -                     | -                     | -                | 33,406,788  |

In addition, the Company has contractual commitments with respect to outstanding accounts payable and other liabilities, certain existing and sold real estate inventory, and investment properties.

#### 37. Financial instruments - fair value

The Company's financial instruments, consisting of due from related parties, amounts receivable, current loan receivables, cash and cash equivalents, amounts payable and other liabilities and current debt, are carried at amortized cost which approximates fair value due to their short-term nature.

Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company uses observable inputs, and when all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The fair value of financial instruments is based upon discounted future cash flows using estimated market rates that reflect current market conditions for instruments with similar terms and risk.

#### 38. Prior year's figures

Certain of the prior year's figures have been reclassified to conform to the current year's financial statement presentation.

#### 39. Subsequent events

On April 15, 2016, the Company sold an inventory property to a third-party for \$9.2 million.

On May 2, 2016, the Board of Directors declared a dividend of \$25 million to be paid in 2016.

#### 40. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on May 2, 2016.