Assurance and Advisory
Business Services

Assurance Services

Consolidated Financial Statements

City of Toronto Economic Development Corporation

December 31, 2006

Ernst & Young

Ernst & Young LLP

AUDITORS' REPORT

To the Shareholder of the
City of Toronto Economic Development Corporation

We have audited the consolidated balance sheet of **City of Toronto Economic Development Corporation** as at December 31, 2006 and the consolidated statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
June 29, 2007.

CONSOLIDATED BALANCE SHEET

As at December 31

	2006 $	2005 $
ASSETS		
Current		
Cash *[note 3]*	**2,841,214**	2,850,880
Investments *[note 3]*	**305,255**	3,276,373
Accounts receivable *[notes 8 and 14[b]]*	**6,759,294**	4,012,741
Prepaid expenses	**31,564**	95,865
Current portion of loan receivable *[note 4]*	—	1,715
Property held for sale *[note 5]*	**235,837**	15,030,359
Total current assets	**10,173,164**	25,267,933
Investments *[note 3]*	**29,890,659**	18,568,172
Rent receivable	**434,464**	433,957
Deferred project costs *[note 6]*	**2,020,812**	3,310,857
Property and equipment, net *[note 7]*	**39,353,400**	31,775,084
	81,872,499	79,356,003
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities *[notes 8 and 14[b]]*	**7,872,876**	8,460,630
Current portion of loan payable *[note 9]*	—	25,923
Current portion of prepaid rents *[note 10]*	**150,233**	183,252
Total current liabilities	**8,023,109**	8,669,805
Tenant deposits	**305,154**	1,312,633
Prepaid rents *[note 10]*	**7,532,112**	7,619,113
Environmental costs *[note 11]*	**52,076,918**	51,173,089
Total liabilities	**67,937,293**	68,774,640
Commitments and contingencies *[notes 11, 13 and 14]*		
Shareholder's equity		
Share capital		
Authorized and issued		
1 common share	**1**	1
Surplus	**13,935,205**	10,581,362
Total shareholder's equity	**13,935,206**	10,581,363
	81,872,499	79,356,003

See accompanying notes

Approved on behalf of the Board:

Director Director

City of Toronto Economic Development Corporation

CONSOLIDATED STATEMENT OF OPERATIONS AND SURPLUS

Year ended December 31

	2006 $	2005 $
OPERATING REVENUE		
Rental income	**8,777,397**	8,579,726
World Expo Cost-Share Grant	**1,550,000**	—
Interest income *[note 3]*	**461,049**	226,583
Other income	**206,544**	22,770
	10,994,990	8,829,079
OPERATING EXPENSES		
Salaries and employee benefits *[note 12]*	**2,846,646**	1,933,169
Rental properties *[note 8]*	**1,663,424**	1,703,401
Professional fees	**3,124,861**	1,497,712
Surveys, studies and marketing	**560,997**	133,979
Office and services	**532,217**	412,078
Office rent	**331,778**	310,581
Bad debt expense	**253,776**	314,869
Environmental monitoring	**203,065**	219,425
Insurance	**101,572**	86,779
Interest on loan payable *[note 9]*	**263**	8,704
	9,618,599	6,620,697
Operating profit	**1,376,391**	2,208,382
Other		
Gain on property held for sale *[note 5]*	**6,502,373**	—
Grants	**(3,719,948)**	(3,695,585)
Amortization	**(804,973)**	(787,161)
	1,977,452	(4,482,746)
Excess (deficiency) of revenue over expenses for the year	**3,353,843**	(2,274,364)
Surplus, beginning of year	**10,581,362**	12,855,726
Surplus, end of year	**13,935,205**	10,581,362

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2006 $	2005 $
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	**3,353,843**	(2,274,364)
Add (deduct) non-cash items		
Amortization	**804,973**	787,161
Gain on sale of property held for sale	**(6,502,373)**	—
	(2,343,557)	(1,487,203)
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(2,746,553)**	(1,009,701)
Prepaid expenses	**64,301**	(10,149)
Accounts payable and accrued liabilities	**(587,754)**	3,536,140
Rent receivable	**(507)**	(12,148)
Tenant deposits	**(2,035,979)**	1,035,794
Prepaid rents	**(120,020)**	(124,377)
Increase in environmental costs liability	**903,829**	912,372
Cash provided by (used in) operating activities	**(6,866,240)**	2,840,728
FINANCING ACTIVITIES		
Decrease in loan receivable	**1,715**	86,121
Decrease in loan payable	**(25,923)**	(148,414)
Cash used in financing activities	**(24,208)**	(62,293)
INVESTING ACTIVITIES		
Decrease (increase) in investments, net	**(8,351,369)**	15,381,846
Increase in property held for sale	**(126,452)**	(13,946,778)
Proceeds from sale of property held for sale, net	**22,451,847**	—
Decrease (increase) in deferred project costs, net	**1,290,045**	(1,521,980)
Purchase of property and equipment	**(8,383,289)**	(149,497)
Cash provided by (used in) investing activities	**6,880,782**	(236,409)
Net increase (decrease) in cash during the year	**(9,666)**	2,542,026
Cash, beginning of year	**2,850,880**	308,854
Cash, end of year	**2,841,214**	2,850,880

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

1. INCORPORATION AND MANDATE

The City of Toronto Economic Development Corporation [the "Corporation"] was incorporated under the Ontario Business Corporations Act on March 21, 1986. The Corporation's share capital is all held by the City of Toronto [the "City"].

The Corporation is the City's principal urban development corporation and exists to act as a catalyst towards improving the economic competitiveness of Toronto, directly or with partners, to increase investment in the key economic infrastructure of the City and to redevelop underutilized and brownfield properties.

As a municipal corporation under Section 149(1) of the Income Tax Act (Canada), the Corporation is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for profit-oriented organizations, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board. The significant accounting policies are as summarized below:

Basis of consolidation

These consolidated financial statements include the assets, liabilities, and results of operations of the Corporation and its wholly-owned subsidiaries:

Toronto Ontario Canada World Expo Corporation
Arrowhead New Toronto East Inc.
Arrowhead New Toronto West Inc.
Arrowhead New Toronto South Inc.
NT Developments East Inc.
NT Developments West Inc.
NT Developments South Inc.

All intercompany balances and transactions between subsidiaries of the Corporation have been eliminated.

Revenue and expense recognition

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes measurable and expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation.

Rental income from properties during rent-free periods represents future cash receipts and is reflected in the consolidated balance sheet in rent receivable and recognized in the consolidated statement of operations and surplus on a straight-line basis over the initial term of the lease. Stepped rents are also recognized on a straight-line basis with rents recorded in advance of cash received being included in rent receivable.

Investments and interest income

Investments are recorded at cost. Write-downs are made for other than temporary declines in the value of the investments on an individual basis. Interest income related to operations is accounted for in the consolidated statement of operations and surplus. Interest income earned on externally restricted funds for environmental remediation is credited directly to the reserve account and is included in the balance of environmental costs on the consolidated balance sheet *[note 11]*.

Property held for sale

Property held for sale is valued at the lower of cost and net realizable value at the expected time of sale. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Deferred project costs

Deferred project costs consist of legal, research, consulting and marketing fees related to the commercial development of land owned by the Corporation. Deferred charges are transferred to the appropriate property and equipment accounts upon substantial completion or to properties held for sale where the Corporation's intent is to dispose of the developed property. Amortization of the costs transferred to property and equipment commences with the commercial use of the property.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	20 years
Dock walls	25 years
Rail lines	25 years
Fencing	5 years
Furniture and equipment	5 years
Computer equipment	3 years
Parking lots	10 years
Leasehold improvements	over the term of the lease
Land improvements	over the term of the lease

Land improvements consist of various pre-acquisition costs, pre-development costs, initial leasing costs and costs of other depreciable improvements in connection with land leases that are amortized over the term of the lease commencing on the date of occupancy by the tenant.

Employee benefits

Contributions to a multi-employer defined benefit pension plan are expensed when due.

Environmental costs

The Corporation includes in its liabilities the amount of any settlements made with existing or former tenants with respect to environmental remediation. As well, those conditions that have been clearly identified as being in non-compliance with environmental legislation and with costs that can be reasonably determined have been accounted for in these consolidated financial statements. The Corporation has not provided for any other amounts in respect of other potential remediation costs.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent 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.

3. INVESTMENTS

Investments include bankers' acceptances and government securities with annual yields ranging from 3.1% to 5% [2005 - 2.4% to 5.0%] and various maturity dates from January 2007 through June 2010 [2005 - January 2006 through March 2010]. The book value of investments approximates their market value.

Investments classified as long-term represent the non-land portion of the assets held for environmental liabilities *[note 11]* less funds authorized by City Council for the following uses: $2,000,000 applied against the Toronto Port Authority [the "TPA"] Settlement, $1,784,342 applied against costs of environmental remediation of the Filmport lands, and $1,550,000 applied against costs of World Expo feasibility studies [2005 - $2,000,000 applied against the TPA Settlement and $13,753,000 for project costs on the CANPAR site held for sale].

Interest income earned during the year is as follows:

	2006 $	2005 $
Interest from investments	**1,296,316**	1,066,590
Interest from loan receivable *[note 4]*	**68,562**	78,792
Total interest income earned during the year	**1,364,878**	1,145,382
Interest from investments directly allocated to environmental costs *[note 11]*	**903,829**	918,799
Interest income	**461,049**	226,583

Pursuant to an agreement to provide support to Medical and Related Science Discovery District ["MARS"] related to their facility in a heritage-designated building, the Corporation has set aside negotiable securities with a value of $500,000. This restriction has the effect of reducing the amount of unrestricted cash and investments available to the Corporation for its day-to-day operations.

4. LOAN RECEIVABLE

Loan receivable consists of the following:

	2006 $	2005 $
Advance to Harbour Remediation and Transfer with interest at 7.25%, repayable in blended monthly payments over 188 months from August 1, 1998	**909,238**	1,001,715
Less allowance for doubtful loans	**(909,238)**	1,000,000
	—	1,715
Less current portion	—	1,715
	—	—

5. PROPERTY HELD FOR SALE

Property held for sale consists of the following:

	2006 $	2005 $
Project costs transferred from deferred project costs *[note 6]*	**235,837**	13,946,778
Land transferred from property and equipment *[note 7]*	—	1,083,581
	235,837	15,030,359

In March 2006, the Corporation completed the sale of their 16-acre CANPAR site in South Etobicoke for an adjusted sale price, net of commissions and other costs, of $22,451,847. The Corporation recognized a gain on the sale of the land and building of $6,502,373. Pursuant to the sale, TEDCO is required to construct a truckwash facility. Upon completion of the facility, TEDCO will be reimbursed for the construction costs.

6. DEFERRED PROJECT COSTS

The continuity of deferred project costs is as follows:

	2006 $	2005 $
Balance, beginning of year	**3,310,857**	1,788,877
Development costs incurred during year	**700,734**	15,468,758
Project costs transferred to land improvements account *[note 7]*	**(1,754,942)**	—
Project costs transferred to property held for sale *[note 5]*	**(235,837)**	(13,946,778)
Balance, end of year	**2,020,812**	3,310,857

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2006			2005		
	Cost $	**Accumulated amortization** $	**Net book value** $	**Cost** $	**Accumulated amortization** $	**Net book value** $
Land *[note 11]*	**29,413,179**	—	**29,413,179**	25,784,757	—	25,784,757
Land improvements *[note 6]*	**3,539,284**	—	**3,539,284**	—	—	—
Buildings	**11,819,882**	**6,072,607**	**5,747,275**	11,814,395	5,470,227	6,344,168
Dock walls	**387,802**	**154,025**	**233,777**	387,802	138,513	249,289
Rail lines	**273,466**	**107,785**	**165,681**	273,466	96,847	176,619
Fencing	**465,795**	**357,720**	**108,075**	417,079	269,433	147,646
Furniture and equipment	**152,126**	**51,468**	**100,658**	90,827	27,277	63,550
Computer equipment	**191,961**	**147,954**	**44,007**	175,461	108,446	67,015
Parking lots	**241,569**	**240,105**	**1,464**	241,569	215,948	25,621
Leasehold improvements	**228,434**	**228,434**	—	228,434	228,434	—
	46,713,498	**7,360,098**	**39,353,400**	39,413,790	6,555,125	32,858,665
Land transferred to property held for sale *[note 5]*	—	—	—	(1,083,581)	—	(1,083,581)
	46,713,498	**7,360,098**	**39,353,400**	38,330,209	6,555,125	31,775,084

8. RELATED PARTY TRANSACTIONS

Included in accounts receivable are amounts due from the City of $1,933,073 [2005 - $1,393,891] for rent, hydro, securities, realty tax adjustments and the City's share of project study costs.

Included in accounts payable and accrued liabilities are amounts due to the City of $2,343,123 [2005 - $2,619,565], which have arisen as a result of charges for realty taxes, hydro and office facilities. The Corporation's loan payable to the City of $25,923 was fully paid in 2006 *[note 9]*.

Amounts due to/from the City are subject to normal trade terms.

Realty taxes of $1,358,114 [2005 - $1,750,793] and hydro costs of $363,786 [2005 - $271,282] comprise the significant transactions occurring during the year in the normal course of business with the City.

9. LOAN PAYABLE

Loan payable consists of the following:

	2006 $	**2005** $
Advance from the City with respect to renovations at 63 Polson Street authorized by Executive Committee 22(14), September 1995, amortized over 10 years at 8.25% compounded semi-annually	—	25,923
Less current portion	—	25,923
	—	—

During the year, the Corporation incurred interest expense of $263 [2005 - $8,704] on this loan.

10. PREPAID RENTS

The Corporation receives prepaid rental payments from various tenants in the Port Area. Included in this amount is $7,619,116 [2005 - $7,706,118] received from the Toronto Hydro Electric Commission for two 99-year leases. These prepaid rents are amortized over the terms of the leases.

11. ENVIRONMENTAL COSTS

The Corporation owns and controls lands in the Port Area with varying degrees of environmental contamination. The costs to remediate these lands depend on the timing and the final approved use of the sites. Where costs cannot be reasonably determined at this time, a contingent liability exists. The Corporation will provide for these future costs once able to be reasonably determined.

The recorded environmental costs liability consists of the following:

	2006 $	2005 $
Balance, beginning of year	**50,223,722**	49,311,350
Interest income *[note 3]*	**903,829**	918,799
Remediation costs incurred	—	(6,427)
Balance, end of year	**51,127,551**	50,223,722
Other contamination settlements	**949,367**	949,367
Total environmental costs liability	**52,076,918**	51,173,089

The Corporation received land and cash consideration from a former tenant representing settlements for soil contamination. City Council has directed the Corporation to hold these funds and all accumulating investment income in a fund for the environmental remediation of these properties once site redevelopment commences. The balance of the liability with respect to these properties as at December 31, 2006 is comprised of land in the amount of $15,902,550 [2005 - $15,902,550], cash contributions of $27,861,555 [2005 - $27,861,555], and net accumulated interest of $7,513,576 [2005 - $6,609,747] less remediation costs incurred to date of $150,130 [2005 - $150,130].

In prior years, the Corporation also received $949,367 from certain former tenants as settlement for the contamination resulting from their occupancy. This amount is included in the environmental costs liability.

The Corporation has determined that these funds are sufficient to complete the environmental remediation on these properties.

12. EMPLOYEE BENEFITS

The Corporation makes contributions to the Ontario Municipal Employees' Retirement Fund ["OMERS"], which is a multi-employer pension plan, on behalf of some 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. As a result, the Corporation does not recognize any share of the OMERS pension surplus or deficit. Employers' current service contributions to the OMERS pension plan in 2006, which were expensed, are $99,558 [2005 - $60,000] and are included within salaries and employee benefits on the consolidated statement of operations and surplus.

13. FUTURE GRANT PAYMENTS AND COMMITMENTS

[a] As at December 31, 2006, the Board of Directors is committed to future grant payments totalling $19,721,480 which are scheduled for payment over the following years:

	$
2007	3,720,120
2008	3,500,680
2009	3,500,680
2010	3,000,000
2011	3,000,000
2012	3,000,000
	19,721,480

[b] The Corporation has entered into occupancy leases for premises with the City. Future minimum annual lease payments are as follows:

	$
2007	330,335
2008	271,504
2009	183,994
	785,833

14. CONTINGENCIES

[a] The Corporation is subject to various legal claims arising in the normal course of its operations. The ultimate outcome of these claims cannot be determined at this time. However, the Corporation's management believes the ultimate resolution of these matters will not have a material adverse effect on its consolidated financial statements.

[b] Accounts payable and accrued liabilities include $2,280,650 [2005 - $2,214,025] due to the City for realty taxes on various properties owned by the Corporation. The Corporation has also recorded a receivable of $2,769,353 [2005 - $2,769,353] from current and former tenants who ultimately bear the obligation for such realty taxes. Accounts receivable have been reduced by $2,076,847 [2005 - $2,076,847] as a provision against non-collectibility.

15. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments approximate their fair values unless otherwise indicated. The Corporation is subject to interest rate risk with respect to its investment portfolio. It is also subject to credit risk with respect to the accounts receivable balance.

ERNST & YOUNG LLP

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