BUILD TORONTO

ANNUAL REPORT 2011

Growth.

We define growth as the evolution and increase in development activity, within our investment portfolio, as well as for the City and our partners.

Value.

Value is realized through the social, environmental and economic initiatives that appreciate through responsible development.

Results.

Achieving real results, through financial dividends and City-Building outcomes, is our promise to our shareholder.

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Letter from Chair and President & CEO

Welcome to BUILD TORONTO's Annual Report for 2011. We are extremely pleased to have this opportunity to review the events of last year, and share with you our progress and accomplishments.

In 2011, we experienced groundbreaking achievements in the development of our organization. As only our second full year in operation, we "hit our stride" with development projects and activities that will continue to unfold over the years ahead. At the same time, we exceeded all our short-term financial targets—enabling the organization to pay a $20M dividend to our Shareholder, a full four years ahead of schedule. We also began to gain appreciation for our potential as a real estate investment company, making strategic decisions on behalf of our Shareholder to create value, in both dollars and improvements, to our urban environment.

Our focus on City-Building is a particular point of pride for BUILD TORONTO. In assessing our portfolio and the present market conditions, every site is evaluated and considered as a unique property for Development & Investment or a Value Add Land Sale. We have numerous development plans - already approved by our Board of Directors that incorporate long-term, visionary priorities such as environmental sustainability, signature urban design and architecture, and neighbourhood regeneration. Development properties also support shorter-term priorities such as job creation, property tax creation, significant new development charges and permitting fees. Our Board of Directors is a major supporter and is championing this Development and Investment approach. We invite you to review the progress of our key projects throughout this Report.

In addition to value creation through Development & Investment, in 2011 certain other parcels were maximized through Value Add Land Sales. BUILD TORONTO invested considerable time, money and expertise to render three sites "development ready." This included environmental work, zoning, financial analysis, marketing, etc. – all Value Add work that would see BUILD TORONTO achieve real results in the competitive marketplace. We believe it is critical that the City of Toronto, like any private sector

Blake Hutcheson
Chair

J. Lorne Braithwaite
President & CEO

investment organization, participate in a buoyant residential real estate market—a key factor that has enabled us to pay our Shareholder a financial dividend ahead of schedule.

Looking ahead, we see a time when short-term property sales are no longer the most important way to create value for our Shareholder. More balance between Value Add Land Sales and sustainable long term legacy cash flow will happen through retention of joint venture interests in larger commercial projects.

We want to intensify our expertise and sound financial management to establish a legacy for the City—a portfolio of high-quality income producing properties that will appreciate in value over time and supply a dependable stream of municipal revenue. This will also enable BUILD TORONTO to fund its own operating expenses, rather than rely on transaction-based income. We must vigorously protect this sound long-term vision against short-term reactionary needs.

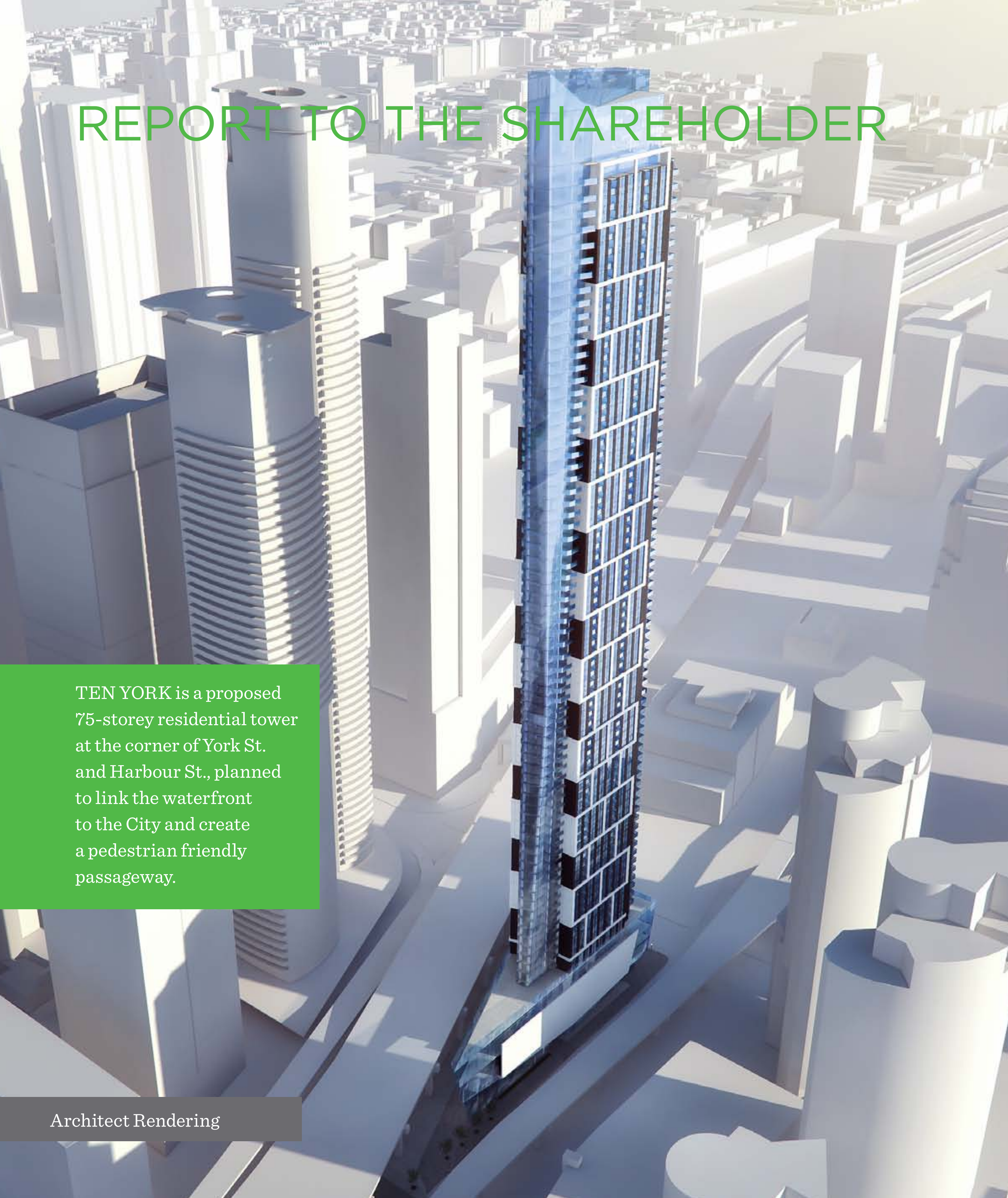
Looking back, we are thrilled with our early results and are even more excited about the years ahead when the City-Building foundations put in place today will come to fruition. We would like to thank our Board of Directors for its support and insight, as well as Council, City staff and other partners with whom we enjoy strong working relationships.

Finally, we would like to thank the dedicated professional men and women who work at BUILD TORONTO and diligently deliver exceptional value to support a vision for City-Building to be shared by all.

Blake Hutcheson

J. Lorne Braithwaite

REPORT TO THE SHAREHOLDER



TEN YORK is a proposed 75-storey residential tower at the corner of York St. and Harbour St., planned to link the waterfront to the City and create a pedestrian friendly passageway.

Architect Rendering

Historical Overview

As a result of recommendations from various expert advisory committees, panels and reports in 2008, the City of Toronto determined a change was needed in how the City managed its land assets. To help make Toronto more prosperous, the City established BUILD TORONTO as an arms-length, professional real estate corporation to fully leverage its underutilized real estate.

The company was incorporated and, in May 2010, officially launched as the City's independent and self-funding real estate and development corporation. The 2009 Shareholder Direction established the corporation's objectives, its governance requirements, and the oversight of financial matters including reporting and performance. The Shareholder Direction also defined the relationship between BUILD TORONTO, the City's Real Estate Services and the City Manager's Office.

Please visit **www.buildtoronto.ca** to view the 2009 Sharholder Direction, along with the full list of foundational documents.

Mandate

To maximize the value of underutilized real estate previously owned by the City in a responsible, innovative and integrated manner.

Vision

To enhance Toronto's economic competitiveness and create a better future for our City through City-Building.

Our Approach to Development

BUILD TORONTO is agile and focused. As a hybrid organization, it takes the best of the private sector and adds the bench strength of the public sector to generate world-class results. With a broad mandate, BUILD TORONTO also has the flexibility to develop innovative solutions and apply its development expertise.

BUILD TORONTO's holistic approach to creating value is implimented within the framework of delivering a financial dividend to the City and supporting 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 part of its Shareholder Direction, BUILD TORONTO has developed a strategic plan to provide the key underpinning of the organization as well as its broad goals and objectives. The following are the Strategic Pillars as outlined in the 2012-2016 Strategic Plan.

Strategic Pillars

1. Investment in the Development of strategic real estate assets for the long-term financial benefit of the City;
2. Value Add Land Sales of non-strategic real estate assets for the short-term financial benefit of the City; and
3. Making a defined contribution to City-Building by creating outcomes that achieve the City's non-financial goals.

1 Investment in the development of strategic real estate assets for the long-term financial benefit of the City.

To fully realize our mandate, BUILD TORONTO must strike the appropriate balance between maximizing short-term revenue through asset sales, and maximizing long-term value creation, through City-Building and development of long-term strategic assets.

Strategic assets are well located, usually transit-connected, urban properties that have high potential for development and long-term leases with corporate tenants signing high-quality covenants.

As BUILD TORONTO matures, and the mandate evolves from being a development corporation to a real estate investment corporation, management will further develop investment criteria and select the appropriate land portfolio for long-term holding.

2 Value Add Land Sales of non-strategic real estate assets for the short-term financial benefit of the City.

Non-strategic assets are properties that lack the characteristics that make them highly desirable to office, retail or industrial tenants for long-term lease.

Value-Add Land Sales will generate returns for the shareholder not only in terms of their proceeds of sale, but also in terms of the development levies, tax assessments, and job creation that will result from moving these properties to the private sector for productive use. Some of the proceeds of sale will also be used by BUILD TORONTO to invest in strategic long-term land assets.

BUILD TORONTO will maximize the potential return of Value Add Land Sale properties by using its expertise to advance sites as far up the land value chain as is appropriate given the particular set of circumstances and timelines. That may involve solving land issues, creating development concepts, up-zoning properties to more appropriate and valuable uses and densities, pre-leasing, target marketing and skillful negotiation of sales agreements (see What is a Value-Add Land Sale? on page 12).

3 Making a defined contribution to City-Building by creating outcomes that achieve the City's non-financial goals.

City-Building is one of the fundamental principles upon which BUILD TORONTO was created. It is the unique value proposition of the organization that sets it apart from private sector real estate companies.

Many of BUILD TORONTO's individual projects have already made substantial City-Building investments, including funding for environmental cleanup, creation of new public spaces and parks, commitment to environmental sustainability in architecture, or contributions to community and infrastructure.

Measuring City-Building Initiatives

City-Building is one of the fundamental principles upon which BUILD TORONTO was created. It is the unique value proposition of the organization that sets it apart from private sector real estate companies.

Our short-term priority is to define and measure the organization's City-Building objectives. BUILD TORONTO is creating a rating system to better quantify and document costs, community impact, and value, among other important factors. The scorecard can also be used to communicate City-Building activities to employees, stakeholders, and the shareholder.

When fully developed, BUILD TORONTO's 2012 Strategic Plan properties are projected to result in:

12,900

new residential housing units.

9,000

additional employees accommodated.

$345

million discounted present value in additional property tax revenues over a 10 yr period.

$134

million in development levies and fees.

2011 HIGHLIGHTS

4050 Yonge Street will include an eight storey solar chimney to help facilitate the circulation of clean air .

Architect Rendering

1. Delivered $20 Million Dividend to the City Four Years Ahead of Schedule

In December 2011, BUILD TORONTO Board of Directors was able to declare a dividend of $20M, four years ahead of schedule. The dividend was funded from three Value Add Land Sales of properties to residential condominium developers in the private sector. The dividend revenue was extremely helpful to address a number of City fiscal challenges as the short-term land sales returned high values in a strong residential real estate market.

2. Completed Three Value Add Land Sales Totalling Approx. $33 Million

In 2011, three such properties were sold after a variety of preparatory steps to add value.

1. 120 Grangeway
   Potential use of approximately 1000 high density residential units.
2. Eglinton & Widdicomb
   Potential use of approximately 600 high & medium density residential units.
3. Midland & St. Clair
   Potential use of approximately 48 medium density residential units.

What is a Value Add Land Sale?

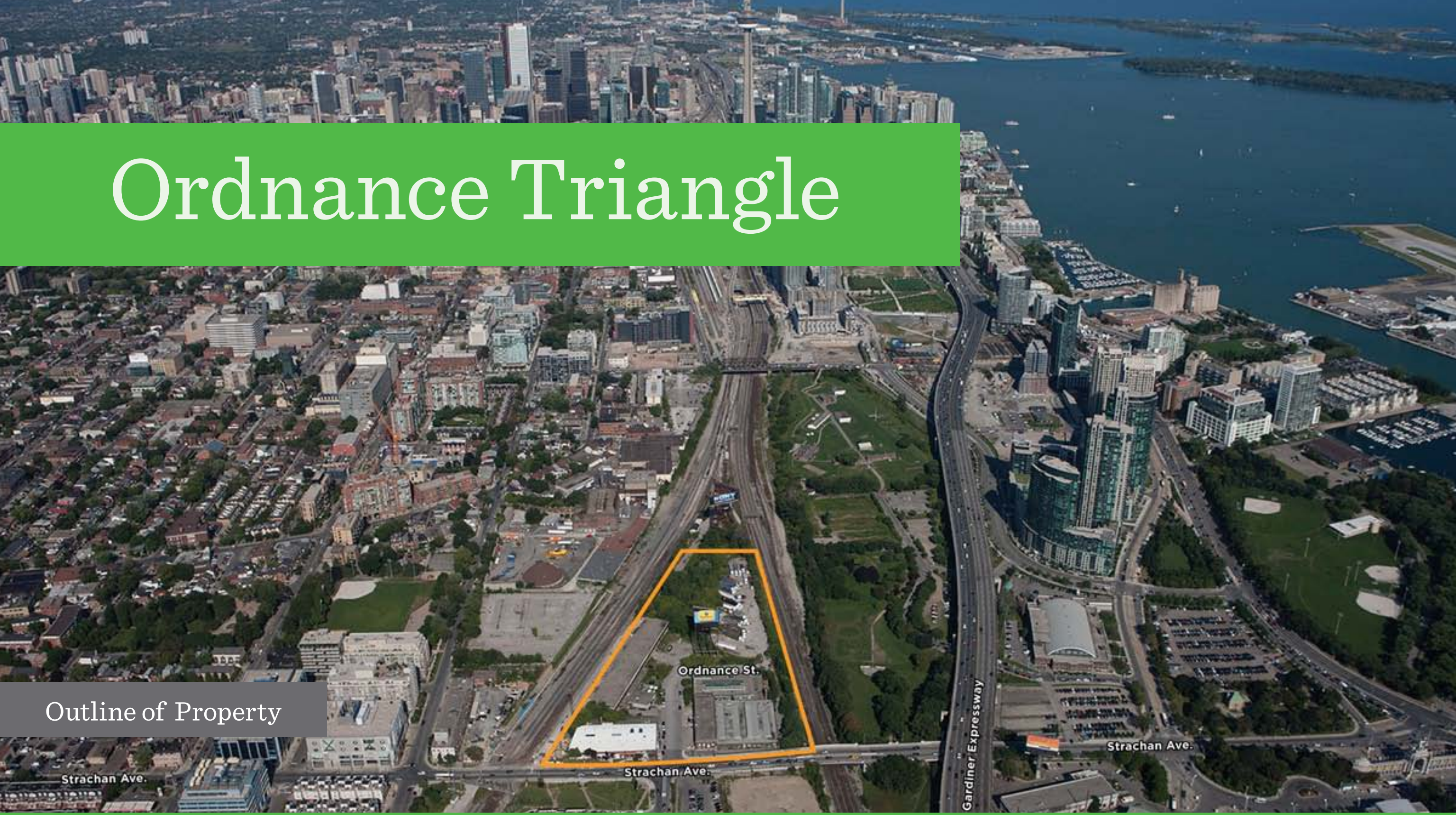
Some properties transferred to BUILD TORONTO from the City are considered non-strategic by virtue of their location and/or their likeliest use as a residential site. Especially in a strong residential market, these properties are usually earmarked for a Value Add Land Sale.

But what does "Value Add" mean? Selling a piece of raw land without any preparation would not maximize the potential value to the City. BUILD TORONTO uses its knowledge and resources to prepare each property for future development, adding resale value to the land with each step.

Adding value may include:

- Feasibility study
- Massing design
- Archeological/Geological/Environmental assessments
- Engineering/Planning/Zoning analysis
- Market/Trade Area analysis

Ordnance Triangle

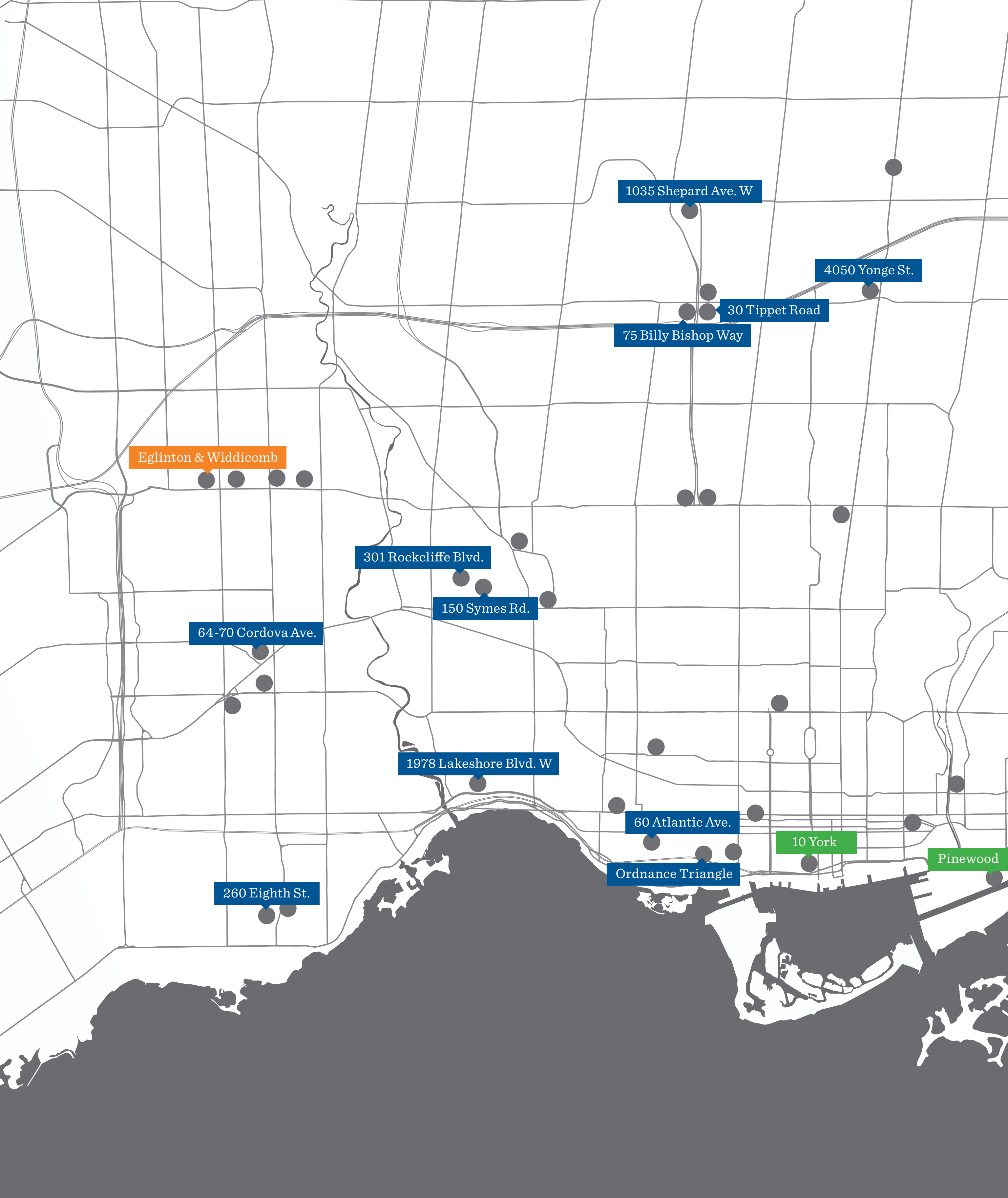


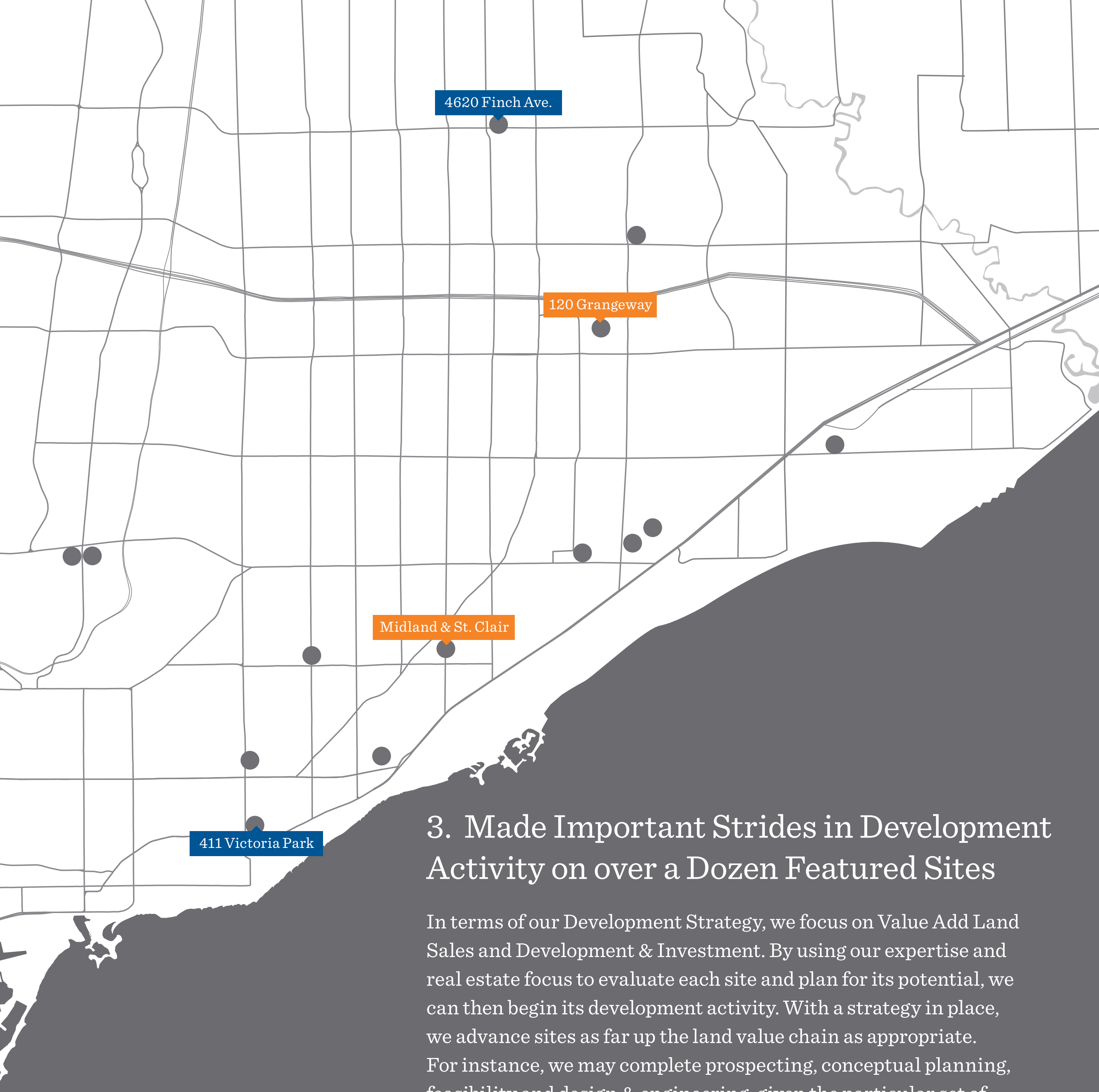
The Ordnance Triangle refers to approx. 6 acres of land by Strachan Ave. and Ordnance Street that, when developed, will enable park space and the facilitation of the Fort York pedestrian and bicycle bridge.

The Ordnance Master Plan is a prime example of BUILD TORONTO's ability to combine economic and City-Building benefits in a long-term asset for Toronto's future. Ordnance is an odd triangular wedge of land situated where the Metrolinx railway corridor splits into the Lakeshore West line and the Georgetown line. The site is located at one end of, but not connected to, the emerging Liberty Village neighbourhood.

A private investment fund had purchased the only privately held property within the wedge, and had plans to develop two isolated condominium towers. This awkward change in the character of the lands gave BUILD TORONTO a compelling reason to joint venture with the investment fund and create a vision for a new neighbourhood. Not only would this maximize the value of BUILD TORONTO lands, but it would also allow for a holistic approach to development and adherence to City-Building principles.

The City-Building components of the development are many, including a new park, and pedestrian and bicycle bridge connecting a series of parks from Queen Street to the lake, new tax assessments, developer levies, jobs, and $30 million in value created for the City during the planning period. BUILD TORONTO also successfully negotiated the relocation of Eva's Phoenix—a youth shelter—to a better city property, and made a substantial financial contribution for the custom built renovation of the new space.


1035 Shepard Ave. W
4050 Yonge St.
30 Tippet Road
75 Billy Bishop Way
Eglinton & Widdicomb
301 Rockcliffe Blvd.
150 Symes Rd.
64-70 Cordova Ave.
1978 Lakeshore Blvd. W
60 Atlantic Ave.
10 York
Pinewood
Ordnance Triangle
260 Eighth St.



3. Made Important Strides in Development Activity on over a Dozen Featured Sites

In terms of our Development Strategy, we focus on Value Add Land Sales and Development & Investment. By using our expertise and real estate focus to evaluate each site and plan for its potential, we can then begin its development activity. With a strategy in place, we advance sites as far up the land value chain as appropriate. For instance, we may complete prospecting, conceptual planning, feasibility and design & engineering, given the particular set of circumstances and timelines. We get each property "development ready", either for asset disposal or further development and management within our portfolio. In 2011, we have made great progress on the development activity of over a dozen sites.

4050 Yonge Street

4050 Yonge Street is a proposed seven-story office complex at the intersection of Yonge Street and York Mills Road that is set to become Ontario's most energy efficient office building.

4050 Yonge Street is an example of a strategic property that BUILD TORONTO hopes to develop as a long-term legacy for the City. The location of the property at a transportation node (transit and highway), and its use as a long lease office building within an existing office district, both contribute to its strategic status.

The two-acre property at the corner of Yonge and York Mills is currently being used as a surface parking lot for TTC commuters accessing York Mills subway station. BUILD TORONTO's vision for the property includes a 367,000 square foot office building. No ordinary office building, it will be the most energy-efficient and environmentally sustainable office building yet constructed in Ontario.

The building has been designed to exceed LEED Gold standards, and achieve a 55% reduction in energy consumption beyond the Model National Energy Code for Buildings (MNECB) standards – an energy efficiency cost savings of $0.75 to $1.50 per square foot.

BUILD TORONTO is currently seeking a lead tenant for this planned building, before a joint venture is arranged to begin construction.

The design of 4050 Yonge features:

- In-slab radiant heating and cooling
- Green-roof technology with water runoff management
- Solar chimney providing natural convection system for airflow
- Fresh air supply via atrium

4. First Partnership with Tridel on 10 York

BUILD TORONTO was always intended be a relatively small operation focusing on expertise rather than resources. Because of its limited size, BUILD TORONTO will never want to tackle large, complex development projects without the resources of a joint venture partner from the private sector.

The value that BUILD TORONTO brings to the table for joint ventures is the substantial equity in the debt-free land transferred from the City, and our expertise in building value in that land. Joint venture partners may bring value in a variety of different ways, including specialized expertise in a particular asset class, equity or debt capital, or resources to plan, sell, lease or construct buildings.

The first partnership negotiated by BUILD TORONTO was with Tridel, involving a property at 10 York Street. This 0.6 acre triangular piece of land, adjacent to the Gardiner Expressway in the Harbourfront neighbourhood, was being used as a surface parking and car impound lot. At first considered undesirable, BUILD TORONTO identified 10 York as an extremely desirable high-rise residential property because of its central location.

After preliminary work on 10 York added substantial value to the property, BUILD TORONTO solicited competitive bids for joint ventures and ultimately selected Tridel based on a number of criteria. By reinvesting a portion of the increased land value in a joint venture with Tridel, BUILD TORONTO manages its risk effectively and will achieve significant value creation.

5. Secured Stable Financing Mechanism for Pinewood

Pinewood Toronto Studios is a modern, purpose-built complex for film and television production situated on an 11-acre site in Toronto's Port Lands. Managed by the renowned Pinewood Studios in the UK, Pinewood Toronto has eight stages, including North America's largest soundproof stage.

BUILD TORONTO is part owner of Pinewood Toronto Studios along with other local investors. As part of a restructuring to place the company on a sound and competitive footing, BUILD TORONTO was able to obtain long-term financing on favourable terms from Infrastructure Ontario.

1035 Sheppard Ave. W.

1035 Sheppard Avenue West is a planned two-million-square foot mixed-use community in the Downsview neighbourhood. It is proposed to include 150,000 square feet of retail and over 3,000 mid-rise and low-rise residential units.

The Downsview lands represent one of BUILD TORONTO's most important transformational projects. This is an incredible and unique opportunity to create a new large mixed-use urban neighbourhood surrounding a major transit node. BUILD TORONTO's vision for the Downsview site, located at the junction of Allen Road and Sheppard Avenue, is to create Ontario's first LEED Platinum community: a development standard that involves both environmental sustainability as well as excellence in neighbourhood design.

The secondary planning work has been completed on the site, providing for:

- 72 acres of greenfield development potential
- 3,100 high rise residential units, including 300 units of affordable ownership housing
- 400 low rise residential units
- 1.5 million square feet of commercial space (office, retail and institutional)

The neighbourhood plan includes parks, bike paths, a greenway, and links to retail and the subway . Its development will coincide with a subway extension, a new GO transit station, improvements to nearby Downsview Park, and more new and interesting development in the Sheppard corridor.

MANAGEMENT DISCUSSION AND ANALYSIS

The Downsview Corporate Centre is part of the transformational 1035 Sheppard Avenue West development.

Architect Rendering

In the second full year of operations, BUILD TORONTO continues to acquire assets and has exceeded the expectations that were established in the Annual 2011 Budget. Through a combination of higher Real Estate Inventory sales and lower costs, BUILD TORONTO has generated a positive variance of almost $20 million in cash over the budgeted amount, allowing it to declare its first dividend to its Shareholder for $20 million, four years ahead of its original plan.

For the fiscal year ending December 31, 2011 and 2010 and for the opening balance sheet at January 1, 2010, BUILD TORONTO has adopted International Financial Reporting Standards (IFRS) based on Management's evaluation of the criteria applicable to the Company's business and its determination that IFRS is the most appropriate reporting framework. The adoption of IFRS has had a significant impact on the manner in which the financial statements are presented and on the financial amounts reported (See note 4 of the Financial Statements for further information). BUILD TORONTO accounts for "acquired" properties, when accepting transfers of surplus property from the City of Toronto, at their fair value. The properties acquired, by year of acquisition, are listed at the end of this MD&A.

BUILD TORONTO has acquired a significant number of assets over the past two years, which are initially recorded at fair market value in two main categories: (i) Real Estate Inventory; properties that BUILD TORONTO plans on selling in normal course and (ii) Investment Properties; properties that have been acquired with the objective to holding the asset for a period of time to earn rentals or for capital appreciation or both. Subsequent to initial recognition, Investment Properties are carried at fair value. Real Estate Inventory has increased to $132.0 million at December 31, 2011, as compared to $64.2 million at December 31, 2010 and $49.8 million at the beginning of 2010. At the year ending December 31, 2011, BUILD TORONTO had Investment Properties of $49.7 million versus $40.4 million at the end of 2010, and $23.9 million at January 1, 2010. Overall, BUILD TORONTO's assets have more than doubled to $263.0 million at December 31, 2011, from $107.6 million at January 1, 2010, mainly as a result of the net acquisition of properties.

Liabilities at December 31, 2011 include an accrual for environmental costs of $20.0 million, that was recorded upon the acquisition of certain real estate assets for clean-up and demolition costs, the accrual of the first dividend declared and paid subsequent to year end to our Shareholder, the City of Toronto in the amount of $20 million and a longer term liability related to Toronto Waterfront Studios (Pinewood) of $32.8 million.

Although the real estate properties are acquired by BUILD TORONTO on a nominal basis, they are initially recorded at their fair value when they are acquired with the difference between fair value and consideration paid recorded in Contributed Surplus, which is a component of Equity. It is mainly due to these acquisitions that the Equity has grown to $185.9 million at December 31, 2011 from a January 1, 2010 opening amount of $73.4 million. When BUILD TORONTO records sales under IFRS, the accounting profit is reduced by the higher cost of sales of these assets that are now initially recorded at fair value, which results in a lower profit from real estate sales than if the sales were recorded at their actual nominal cost to BUILD TORONTO.

Sales of Real Estate Inventory for the year ended December 31, 2011 were $33.1 million, as compared to $19.0 million for the corresponding period in 2010. Cost of sales was $22.4 million and $7.8 million for the years ended December 31, 2011 and 2010 respectively, while the accounting profit from these years is $10.6 million and $11.2 million respectively. As noted above, since the real estate assets are transferred to BUILD TORONTO at nominal value, the cost of sales deducted is a non-cash item, therefore the cash generated by these sales is the full sales proceeds, as shown on the Consolidated Statement of Cash Flow. This accounting profit demonstrates the true “value add” of the BUILD TORONTO approach by influencing values and using a professional real estate framework to ensure that we leverage our portfolio for the benefit of our Shareholder, both financially and through extensive City-Building initiatives within the projects.

Investment Property net property income, which includes the ground lease related to Pinewood Studios, has been consistent at approximately $0.5 million for the years ended December 31, 2011 and 2010.

Net gain from fair value adjustments to investment properties, which is the incremental increase in the value of the investment properties year over year, was $4.4 million during the year ended December 31, 2011 versus $3.7 million during the year ended December 31, 2010. As sales and development activities have increased, so have general and administrative expenses, to $7.4 million from $6.0 million for the years ended December 31, 2011 and 2010 respectively.

There were some one-time items recorded for the year ended December 31, 2011 that were not recorded in the prior year, those being the guarantee fee of $0.2 million and the net gain on the derecognition of loans receivable and payable of $1.1 million, as a result of arranging a $34.5 million facility for Pinewood Studios.

Net Income and total comprehensive income for the year ended December 31, 2011 and 2010 increased to $8.6 million from $7.4 million respectively.

To reconcile the comprehensive income as reported under IFRS to comprehensive income as would have been reported under previous GAAP, there are a number of adjustments (See note 4 of the Financial Statements for 2010 reconciliation of income under GAAP versus IFRS).

The reconciliation would be:

	2010	2011
Comprehensive income as per audited financial statements	$9,155,988	$7,410,756
Differences increasing (decreasing) reporting amount:		
Adjustment to cost of sales	22,454,649	7,634,057
Fair value adjustments to investment properties	(4,410,602)	(3,720,253)
Reversal of amortization – investment property	-	(293,135)
Net gain on derecognition of loans	(1,089,351)	-
Comprehensive income under previous GAAP	$26,110,684	$11,031,425

During the year ended December 31, 2011, BUILD TORONTO generated $22.6 million of cash, versus $18.6 million for the previous corresponding year. Cash from operations for the year ended December 31, 2011 is $26.4 million; as noted, this reflects an add-back to net income of the non-cash cost of sales of $22.4 million. For the year ended December 31, 2010, cash flow from operations was $22.6 million, with an add-back to net income of $7.8 million of non-cash cost of sales. Cash at the end of the year ended December 31, 2011 was $41.3 million versus $18.7 million for the year ended December 31, 2010.

BUILD TORONTO continues to generate financial returns and City-Building initiatives for its Shareholder, the City of Toronto. As well, management is continually working to improve processes, both internally and externally, to ensure that we are efficient and effective in the execution of our mandate.

The properties acquired by year of acquisition are:

Prior to Fiscal 2010

225 Commissioners St. (Pinewood)
1035 Sheppard Ave. W. (Downsview)
120 Grangeway Ave.
30 Tippet Rd.
50 Wilson Heights Blvd.
154 Front St.
150 Symes Rd.

During Fiscal 2010

120 Harbour St. (10 York)
75 Billy Bishop Way
4050 Yonge St.
64-70 Cordova Ave.
Midland Ave. & St. Clair Ave. E.

During Fiscal Year 2011

383 Old Weston Road
4334-4340 Lawrence Ave. E.
260 Eighth St.
Eglinton Ave. W. at Widdicombe Hill Blvd.
301 Rockcliffe Blvd.
4620 Finch Ave. E.
28 Bathurst St.
60 Atlantic Ave.
10 to 25 Ordnance Street & 45 Strachan Ave.
805 Don Mills Rd. & Eglinton Ave. E.
2 Bicknell Ave.
297 Sixth St.
4650 Eglinton Ave. W. (Kipling & Wincott)
1978-2000 Lakeshore Blvd. W.

THE TEAM

BUILD TORONTO is led by a team with deep experience in public and private sector development. J. Lorne Braithwaite, BUILD TORONTO's President & CEO, is a dynamic and internationally known real estate developer with a strong strategic vision and business acumen gained through 30 years of experience in Canada and abroad.

In 2011, we added a number of key individuals to our team. David Fiume, Senior Vice President & CFO, a Chartered Accountant with over 20 years of senior executive experience, came on board to drive the overall financial management of the corporation. Steven Trumper, Vice President, General Counsel & Corporate Secretary, was appointed to provide leadership in the legal function and play a key role in property transactions. Allan Saito joined the team as Vice President, Commercial Leasing to oversee the marketing of all commercial space in Build Toronto's portfolio.

Finally, Tracey Smith, Manager, Environmental Services, joined the company to play the important role of leading environmental land use planning for our portfolio.

Rounding out BUILD TORONTO's Senior Management Team are Don Logie, Senior Vice President, Development; John Macintyre, Senior Vice President, Corporate Development & Residential Projects; Prakash David, Senior Vice President, Residential & Retail Development; as well as, Frank Bajt, Vice President, Land & Asset Management; Carlo Bonanni, Director of Planning; Bruce Logan, Vice President, Corporate Affairs; Kathryn Truman, Controller; and Michael Whelan, Vice President, Development.

Collectively, BUILD TORONTO's Senior Management Team has the development expertise, financial acumen and intimate knowledge of the City of Toronto and its unique stakeholder environment required to achieve BUILD TORONTO's vision.

We would like to make special mention of Jon Love, Managing Partner, at Kingsett Capital who was a BUILD TORONTO board member from 2009 to 2011. As one of Canada's foremost real estate and development executives, Jon was instrumental during the start-up phase of BUILD TORONTO providing invaluable market knowledge and insight required to assess and prioritize our portfolio mix.

Board of Directors

Blake Hutcheson
Chair

Blake Hutcheson is President and Chief Executive Officer of Oxford Properties Group, the investment and management arm of OMERS global real estate portfolio.
He is responsible for Oxford's long-term business strategy and objectives, and plays a vital role in leading Oxford's capital under management strategy and relationship-building efforts with key partners in markets around the world.

Most recently, Blake was the Head of Global Real Estate with Mount Kellett Capital Management and President of the Canadian, Latin American and Mexican operations for CB Richard Ellis.

Councillor Doug Ford
Vice-Chair

Councillor Doug Ford represents Ward 2, Etobicoke North. A life-long resident and involved community member of Etobicoke, Doug is the son of late MPP Doug Ford Sr. and brother of Mayor Rob Ford.

Doug has over 25 years of international and domestic business experience, most recently as President of Deco Labels & Tags, which employs 250 people in Toronto, Chicago and New Jersey.

David Barry
Director

David Barry is Executive Vice President and Portfolio Manager at Bentall Kennedy, the largest real estate investment advisory and services organization in Canada, and one of the largest real estate investment advisors in North America. David has overall responsibility for the PenRetail opportunity funds and other specialty funds, and recently also joined the portfolio management team for Westpen Properties Ltd.

Formerly with RT Realty Advisors and The Prudential Insurance Company of America, David has over 20 years' experience in the real estate investment industry in Canada.

Bruce Bowes
Director

Bruce Bowes is the Chief Corporate Officer for the City of Toronto. He is responsible for the City's Facilities Management, Real Estate Services and Fleet Services Divisions.

Bruce has been in municipal government since 1990. Before being appointed in 2005, Bruce was also Executive Director of Facilities & Real Estate for the City of Toronto, Director of Facilities and Property Management for the City of Mississauga and Director of Public Works in the Town of Aurora.

Paul Finkbeiner
Director

Paul Finkbeiner is President of GWL Realty Advisors Inc., one of Canada's largest real estate investment advisors and a wholly owned subsidiary of Great-West Life Assurance Company. Paul is responsible for the overall management and growth of GWL Realty Advisors' $12 billion real estate portfolio, including strategic direction, business development, asset and property management and specialized real estate advisory services.

Paul has over 22 years' experience in the real estate industry, and previously worked for Trizec Corporation, Brookfield Properties and Trilea Shopping Centres.

Stuart Lazier
Director

Stuart Lazier is the Chief Executive Officer of Fiera Properties Limited, a $500 million national real estate investment management business, and President of Axia Corporation, an investment holding company that invests in private equity strategies in Canada.

Prior to his roles at Fiera Properties Limited and Axia Corporation, Stuart was co-founder and partner with KingSett Capital Inc., President of O&Y Enterprise and National Managing Partner of Enterprise Property Group.

Ucal Powell
Director

Ucal Powell is the Executive Secretary Treasurer of the Carpenters' District Council of Ontario, an affiliation of 20 Local Unions representing approximately 21,000 working men and women. Ucal first joined the Carpenters' Union in 1970 and has become the driving force behind the success it enjoys as one of Ontario's most progressive and modern labour organizations.

Brigitte Shim
Director

Brigitte Shim is a Principal at Shim-Sutcliffe Architects and an Associate Professor at the University of Toronto's John H. Daniels Faculty of Architecture, Landscape and Design. Her firm has been honoured with eleven Governor General's Medals and Awards for Architecture from the Royal Architectural Institute of Canada, along with design recognition from the American Institute of Architects, and the American and Canadian Wood Councils awards program.

Ken Silver
Director

Ken Silver is Senior Vice President, Corporate Strategy and Real Estate, with Canadian Tire Corporation Limited, and President of Canadian Tire Real Estate Limited, a subsidiary company. Ken is accountable for all real estate development, construction, disposition and property management activities for Canadian Tire and its business units. He is also responsible for the Corporation's strategy development, business development and sustainability initiatives.

Ken has spent more than 25 years in the development and retail industries in Canada and the United States, with experience in retail, residential, industrial and commercial development.

Councillor Michael Thompson
Director

Councillor Michael Thompson represents Ward 37, Scarborough Centre, and is the Chair of the Economic Development and Culture Committee and Vice Chair of the Toronto Police Services Board. He is a strong advocate for community-based programs for business development, public safety and education.

Prior to being elected in 2003, Michael worked in the financial services industry and later founded and ran a successful business services company.

Mike Williams
Director

Mike Williams is the General Manager of the Economic Development and Culture Division of the City of Toronto. He is responsible for leading the team that contributes to an economically strong and culturally vibrant city with a high quality of life, advancing Toronto's prosperity, opportunity and livability. In addition to BUILD TORONTO, Mike represents the City of Toronto on the following boards: Casa Loma Corporation, Invest Toronto, Toronto Financial Services Alliance, Toronto Port Lands Company and is ex officio on the board of Tourism Toronto.

For most of his career, Mike worked in senior management in consulting, sales, marketing and international operations with a variety of Canadian and U.S. companies.

Executive Management Team

J. Lorne Braithwaite
President & CEO

J. Lorne Braithwaite is an entrepreneurial developer, visionary and industry leader with specialized expertise in regional mall real estate and retailing across Canada.

Prior to joining BUILD TORONTO, Lorne was Founder, Chairman, President and CEO of Cambridge Shopping Centres, where he amassed 40 large enclosed malls after leading the leveraged management buyout in 1980. Internationally, Lorne served as the Worldwide Chairman of the International Council of Shopping Centres 1995 to 1996. He was President of the Canadian Institute of Public and Private Real Estate Companies (formerly CIPREC, now REALpac) from 1995 to 1997.

David Fiume
Senior Vice President & CFO

David Fiume is a Chartered Accountant with over 20 years of senior executive experience in accounting, finance and operations in the public and private real estate sector with extensive expertise in joint venture partnerships, securing financing and acquisitions.

David was most recently the President & Chief Executive Officer at Retrocom Mid-Market REIT. He led various successful transactions including the acquisition of $55 million dollars of properties and a $20 million public offering. David was also President and Chief Executive Officer at Telepanel Systems Inc., Vice President, Finance and Treasury at Lehndorff, Chief Financial Officer at Camreal Management Inc., and Audit Manager at KPMG.

Don Logie
Senior Vice President, Development

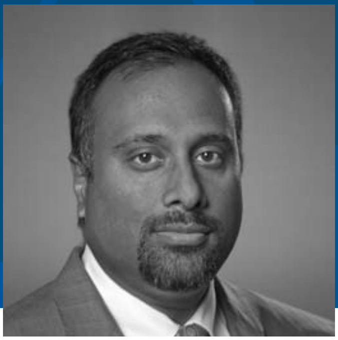
Don Logie is a senior real estate executive with extensive experience in the development and operation of commercial, industrial and residential real estate, with particular emphasis on mixed-use developments.

In 2008 Don was Acting President & CEO and as well as Vice President, Development for the City of Toronto Economic Development Corporation (TEDCO). Prior to TEDCO, Don performed various development and asset management roles for Magna International, O&Y Enterprise, Brookfield Properties and Markborough Properties Inc. His international experience includes work in the United States, Europe, Mexico, the United Kingdom, China, Africa and the Middle East.

John Macintyre
Senior Vice President, Corporate Development & Residential Projects

John Macintyre has more than three decades of business and government experience, holding senior corporate and operational roles in both the amalgamated City of Toronto and the former City of Etobicoke.

Prior to his appointment at BUILD TORONTO, John was a Vice President of the City of Toronto Economic Development Corporation (TEDCO) and the Acting CEO of Invest Toronto. He is also former Chair of Parks and Recreation Ontario and a former Chair of the Humber Arboretum Board of Management.



Prakash David
Senior Vice President, Residential & Retail Development

Prakash David is an experienced real estate executive and lawyer with a comprehensive understanding of real estate development including acquisitions, deal structuring, municipal approvals, financing, leasing and construction.

Previously, Prakash was a Portfolio Leader and Senior Director of Acquisitions and Development with Smart!Centres, leading teams focused on retail and mixed-use developments across Ontario. Prior to this, he practiced law in Toronto.

FINANCIAL STATEMENTS

A retail café is planned for the ground-floor level at 4050 Yonge Street near the atrium entrance leading into the York Mills Subway Station.

Architect Rendering

pwc

June 5, 2012

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 balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Build Toronto Inc.
Consolidated Balance Sheets

	Note	December 31, 2011 $	December 31, 2010 $ (note 4)	January 1, 2010 $ (note 4)
Assets				
Current assets				
Real estate inventory	6	132,052,448	64,249,237	49,776,656
Pre-acquisition costs		965,290	554,776	-
Amounts receivable	7	952,227	3,637,265	919,229
Prepaid expenses		41,164	63,202	287,226
Short-term investments	8	30,000	800,037	-
Cash and cash equivalents	8	41,297,072	18,672,027	120,072
		175,338,201	87,976,544	51,103,183
Non-current assets				
Investment property	9	49,738,697	40,408,531	23,937,212
Equity accounted investments	10	2,024,402	2,361,985	3,165,364
Property, equipment and intangible assets	11	1,067,174	1,191,912	126,062
Loans receivable	12	34,899,648	27,615,179	29,221,553
		87,729,921	71,577,607	56,450,191
Total assets		263,068,122	159,554,151	107,553,374
Liabilities				
Current liabilities				
Due to related parties	24	811,169	12,242,073	3,558,086
Amounts payable and other liabilities	13	3,513,083	4,227,473	77,632
Environmental provision	14	20,010,066	2,425,000	500,000
Dividend payable	15	20,000,000	-	-
		44,334,318	18,894,546	4,135,718
Non-current liabilities				
Debt	16	32,814,667	29,000,000	30,000,000
Total liabilities		77,148,985	47,894,546	34,135,718
Shareholder's Equity				
Total equity		185,919,137	111,659,605	73,417,656
Total liabilities and equity		263,068,122	159,554,151	107,553,374

Approved by the Board of Directors

_______________ Director _______________ Director

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

Build Toronto Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31

	Note	2011 $	2010 $ (note 4)
Real estate inventory			
Sales		33,078,167	19,000,000
Cost of sales		(22,454,649)	(7,848,669)
Profit from sale of real estate inventory		10,623,518	11,151,331
Investment property			
Rental revenue	18	1,645,554	2,130,527
Property operating costs		(1,100,492)	(1,591,189)
Net property income		545,062	539,338
Net gain from fair value adjustments to investment property	9	4,410,602	3,720,253
Share of net losses from equity accounted investments	10	(698,865)	(903,379)
General and administrative expenses	19	(7,404,936)	(6,038,929)
Project investigative costs		(150,223)	(785,935)
Depreciation and amortization	11	(211,558)	(169,935)
Operating profit		7,113,600	7,512,744
Guarantee fee		192,526	-
Net gain on derecognition of loans receivable and payable	20	1,089,351	-
Interest income	21	997,742	920,374
Finance costs		(790,450)	(1,022,362)
Net income and total comprehensive income for the year		8,602,769	7,410,756

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

	Note	Common shares $ (note 17)	Contributed surplus $	Retained earnings (deficit) $	Total shareholder's equity $
Balance - January 1, 2010	4	1	75,779,231	(2,361,576)	73,417,656
Net income for the year		-	-	7,410,756	7,410,756
Transfer of properties from the shareholder					
Investment property	24	-	10,527,000	-	10,527,000
Real estate inventory	24	-	20,304,193	-	20,304,193
Balance - December 31, 2010	4	1	106,610,424	5,049,180	111,659,605
Net income for the year		-	-	8,602,769	8,602,769
Transfer of properties from the shareholder					
Investment property	24	-	4,300,000	-	4,300,000
Real estate inventory	24	-	70,582,337	-	70,582,337
Other	24	-	10,774,426	-	10,774,426
Dividend declared	15	-	-	(20,000,000)	(20,000,000)
Balance - December 31, 2011		1	192,267,187	(6,348,051)	185,919,137

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	2011 $	2010 $ (note 4)
Cash provided by (used in)			
Operating activities			
Net income for the year		8,602,769	7,410,756
Items not involving cash			
Straight-line rent		(258,557)	(258,557)
Deferred lease inducement/escalations amortization		50,116	(52,399)
Share of net losses from equity accounted investments		698,865	903,379
Project investigative costs written off		149,095	754,494
Net gain from fair value adjustments to investment property		(4,410,602)	(3,720,253)
Net gain on derecognition of loans receivable and payable		(1,089,351)	-
Amortization of capitalized financing costs		2,326,275	262,828
Discount received from early repayment of loans		800,000	-
Depreciation and amortization		211,558	169,935
Real estate inventory			
Additions		(2,184,651)	(830,414)
Cost of sales		22,454,649	7,848,669
Pre-acquisition costs incurred		(410,514)	(554,776)
Changes in non-cash working capital	23	(540,332)	10,650,772
		26,399,320	22,584,434
Investing activities			
Investment property development costs		(674,466)	(2,240,203)
Additions to property, equipment and intangible assets		(86,820)	(1,235,785)
Advances to equity accounted investments		(361,281)	(100,000)
Loans receivable advances		(32,814,667)	-
Repayment of loans receivable		25,578,255	1,343,546
Redemption (purchase) of short-term investments		770,037	(800,037)
		(7,588,942)	(3,032,479)
Financing activities			
Repayment of loan		(29,000,000)	(30,000,000)
Proceeds from new loans		32,814,667	29,000,000
		3,814,667	(1,000,000)
Increase in cash and cash equivalents during the year		22,625,045	18,551,955
Cash and cash equivalents - Beginning of year		18,672,027	120,072
Cash and cash equivalents - End of year		41,297,072	18,672,027
Supplementary information			
Interest paid during the year		654,758	681,496
Interest received during the year		466,452	813,765
Accrued investment property development costs		236,914	509,382

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

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 maximize 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.

On December 16, 2009, Build Toronto Holdings One Inc. (BTHOI), a wholly owned subsidiary, was incorporated to hold the investment and related obligations in Toronto Waterfront Studios Inc. (TWSI). On April 27, 2011, Build Toronto Holdings (Harbour) Inc., a wholly owned subsidiary, was incorporated to hold the investment and related obligations related to the property at 10 York Street, formerly 120 and 130 Harbour Street.

The Company's consolidated financial statements for the year ended December 31, 2011 were authorized for issue by the Board of Directors on May 25, 2012, after which the consolidated financial statements may only be amended with the Board's approval.

2 Summary of significant accounting policies

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

Basis of presentation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as prescribed in Part I of The Canadian Institute of Chartered Accountants (CICA) Handbook. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In September 2009, the Public Sector Accounting Standards Board approved an amendment to the Introduction to Public Sector Accounting Standards. Under the amendment, government business enterprises are to adhere to standards for publicly accountable profit-oriented enterprises, meaning the adoption of IFRS for fiscal years beginning on or after January 1, 2011. The government business-type organizations (GBTOs) classification in the Public Sector Accounting Handbook has been eliminated and government organizations previously classified as GBTOs are categorized as other government organizations (OGOs) or government not-for-profit organizations. The Company has been identified as an OGO and accordingly had to determine the appropriate framework between public sector accounting standards or IFRS. Management has evaluated the criteria applicable to the Company's business and determined that IFRS is the most appropriate framework. The Company adopted IFRS effective January 1, 2011.

Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term previous GAAP refers to Canadian GAAP before the adoption of IFRS.

Statement of compliance

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 4, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated balance sheet as at January 1, 2010, and throughout all years presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under previous GAAP.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investment property, which is measured at fair value.

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. References to dollars are to Canadian dollars.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Build Toronto Inc. and its subsidiaries (including special purpose 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 has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Special purpose entities (SPEs)

An SPE is defined as an entity created to accomplish a narrow and well-defined objective. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making power of their governing board, trustees or management over the operations of the SPE. Consolidation is required when the substance of the relationship between an entity and the SPE indicates the SPE is controlled by that entity. The Company has determined it is not a party in any SPEs.

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 taxes. For real estate inventory transferred by the City, the fair value of the property is deemed to be its cost at the date of transfer. General and administrative costs and selling and marketing costs are expensed as incurred. The carrying value of transferred properties held as real estate inventory, including capitalized costs, are 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 dates of the consolidated balance sheets 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.

- 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 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 comprehensive 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 date. 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, which estimates fair value based on the present value of the properties' estimated future cash flows. Estimated fair values are determined on a property by property basis. The DCF model is based on a detailed planning period of five years, within which the relevant real estate cash flow components are forecasted. After a detailed planning period of five years, a net present value is calculated for the remaining useful life based on the estimated cash flow in the final year of the detailed planning period. Where relevant, the DCF model uses market oriented figures including appropriate discount rates, market rental growth rates, vacancy rates and inflation rates.

Initial direct leasing costs incurred by the Company in negotiating and arranging tenant leases are added to the carrying amount of investment property and are amortized over the term of the lease. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment property and are amortized on a straight-line basis over the term of the lease as a reduction of investment property revenue.

- 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 which a project has been abandoned are expensed as soon as it becomes evident there is no future value.

Equity accounted investments

Equity accounted investments are investments 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.

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 non-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, office equipment and website development costs. 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	5 years straight-line
Computer equipment	3 years straight-line
Website development	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 recognized 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 comprehensive income during the financial 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 profit 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 comprehensive income in the year the asset is derecognized.

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, sources of real property, which the Company is mandated to improve and hold for future cash flows (investment property) and sale (real estate inventory property), 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.

Properties classified as real estate inventory are initially recorded at fair value. 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 property to marketable status. 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.

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 collectibility 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 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

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 two loan receivables, a vendor take-back mortgage, trade receivables, short-term investments and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, 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.

b) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables, debt and amounts due to related parties. Trade payables are initially recognized at the amount required to be paid, less, when material, 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 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 reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount 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 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.

Short-term investments

Short-term investments with original maturities of more than three months are recorded at cost plus accrued investment income, which approximates fair value.

Environmental provision

The cost of the Company's obligation to remediate land is estimated based on the present value of expected future environmental costs and is recognized in the period in which the obligation is incurred.

The present value of the environmental provision is determined based on a discount rate that takes into account the time value of money 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 balance sheets by either increasing or decreasing the environmental provision. Any reduction in 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 comprehensive income.

3 Critical accounting judgments, 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:

- Selection of accounting standards

  As noted in note 2, the Company has been identified as an OGO and accordingly had to determine which framework (public sector accounting standards or IFRS) would meet the needs of users of the general purpose consolidated financial statements of the Company. To assess users' needs, management considered various criteria applicable to the Company's business in determining that IFRS is the most appropriate framework. These criteria include, but are not limited to: (a) the nature of the Company's mandate and considering its purpose, objectives and limitations; (b) whether the Company has commercial type operations and substantially derives its revenue from these activities; and (c) whether the Company receives limited government assistance on an ongoing basis.

- Determination of whether the Company has significant influence over its equity accounted investments

  In assessing that the Company has significant influence over its equity accounted investments, 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, approves the transfer and the Company accepts the property; and (ii) when the Company receives the environment site assessment. 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.

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 periods. 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 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 including 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 including 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 dates of the consolidated balance sheets 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)

  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.

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

  The Company makes estimates and assumptions when assessing the possibility and amount of impairment of property and intangible asset. 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 asset, 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 and related costs, and the appropriate discount rate to apply.

4 Transition to IFRS

The Company transitioned from previous GAAP to IFRS effective January 1, 2010 (the transition date) and has prepared its opening IFRS consolidated balance sheet as at that date. The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements the Company has prepared in accordance with IFRS. The Company has prepared the opening IFRS consolidated balance sheet by applying existing IFRS with an effective date of December 31, 2011 or prior. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied one optional exemption from full retrospective application of IFRS relating to business combinations: the Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date. As such, previous GAAP balances relating to business combinations entered into before the transition date, if any, have been carried forward without adjustment.

b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exception from full retrospective application for estimates. The Company has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error. New estimates required under IFRS reflect conditions that existed at the transition date.

c) Reconciliation of equity and comprehensive income as reported under previous GAAP to IFRS

The following is a reconciliation of the Company's total equity reported in accordance with previous GAAP to its total equity in accordance with IFRS at the transition date:

	Common shares $	Contributed surplus $	Deficit $	Total shareholder's equity $
As reported under previous GAAP - December 31, 2009	1	15,724,175	(2,361,576)	13,362,600
Transfer of investment property (i)	-	10,778,400	-	10,778,400
Transfer of real estate inventory (ii)	-	49,276,656	-	49,276,656
As reported under IFRS - January 1, 2010	1	75,779,231	(2,361,576)	73,417,656

The following is a reconciliation of the Company's total equity reported in accordance with previous GAAP to its total equity in accordance with IFRS at December 31, 2010:

	Common shares $	Contributed surplus $	Retained earnings (deficit) $	Total shareholder's equity $
As reported under previous GAAP - December 31, 2010	1	15,724,175	8,669,849	24,394,025
Adjustment to cost of sales (ii)	-	-	(7,634,057)	(7,634,057)
Reversal of amortization (i)	-	-	293,135	293,135
Transfer of investment property (i)	-	21,305,400	-	21,305,400
Transfer of real estate inventory (ii)	-	69,580,849	-	69,580,849
Fair value adjustment to investment property (i)	-	-	3,720,253	3,720,253
As reported under IFRS - December 31, 2010	1	106,610,424	5,049,180	111,659,605

The following is a reconciliation of the Company's comprehensive income reported in accordance with previous GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010:

	December 31, 2010 $
Comprehensive income as reported under previous GAAP	11,031,425
Differences increasing (decreasing) reported amount	
Adjustment to cost of sales (ii)	(7,634,057)
Reversal of amortization - investment property (i)	293,135
Fair value adjustment to investment property (i)	3,720,253
Comprehensive income as reported under IFRS	7,410,756

d) Notes to reconciliations

i) Investment property

Under previous GAAP, land and land improvements were recorded at cost and depreciated over their estimated useful lives. Under IAS 40, Investment Property (IAS 40), the Company has elected to measure investment property at fair value and record changes in fair value in income during the period of change. In addition, under previous GAAP, properties were recorded when the title of the land transferred from the City and were measured at the net book value recorded in the City's records. Under IFRS, the Company records properties transferred from the City when it is probable the future economic benefits associated with the property will flow to the Company and the properties are measured at fair value at the date of transfer. As a result, certain properties have been recorded earlier under IFRS than under previous GAAP and there has been an increase to the carrying amount of the investment property. Accordingly, on the date of transition, the carrying amount of investment property increased by $10,778,400 with a corresponding increase to contributed surplus. The impact on investment property and contributed surplus for 2010 is an increase of $21,305,400. In addition, on the date of transition, project development costs relating to investment property of $nil (December 31, 2010 - $1,699,066) have been reclassified to investment property and due to the earlier recognition of the properties transferred from the City, an environmental provision of $525,000 has been recorded as at December 31, 2010 with a corresponding increase to investment property.

The effect on comprehensive income for 2010 is an increase to net gain from fair value adjustments to investment property of $3,720,253 and the removal of amortization relating to land improvements of $293,135. Land and land improvements under previous GAAP are described as investment property under IFRS.

ii) Real estate inventory

Under previous GAAP, properties were recorded when the title of the land transferred from the City and were measured at the net book value recorded in the City's records. Under IFRS, the Company records properties transferred from the City when it is probable the future economic benefits associated with the property will flow to the Company and the properties are measured at fair value. As a result, certain properties have been recorded earlier under IFRS than under previous GAAP and there has been an increase to the carrying amount of real estate inventory. Accordingly, on the date of transition, the carrying amount of real estate inventory increased by $49,276,656 with a corresponding increase to contributed surplus. The impact on real estate inventory and contributed surplus for 2010 is an increase of $69,580,849. In addition, on the date of transition, project development costs relating to real estate inventory of $nil (December 31, 2010 - $617,056) have been reclassified to real estate inventory and due to the earlier recognition of the properties transferred from the City, on the date of transition, an environmental provision of $500,000 (December 31, 2010 - $1,400,000) has been recorded with a corresponding increase to real estate inventory.

The effect on comprehensive income for 2010 is an increase in the cost of sales relating to previously sold properties of $7,634,057.

iii) Other

- Lease accounting and capitalized costs

  Under IFRS, the date on which capitalization ceases is the date when the asset is in the condition and capable of operating in the manner intended by management. This is typically the earlier of substantial completion of construction or when space is turned over to the tenant for fixturing, and this date may be earlier as compared to previous GAAP. The Company has only one major lease with Pinewood Toronto Studios Inc. at the 225 Commissioner's site, which was transferred from Toronto Port Lands Company in December 2009 and was operational when transferred. The other investment properties are in the pre-development stage and do not have buildings or tenants.

- Financial assets and liabilities

  On the adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistently with their designations under previous GAAP.

- Classified balance sheet

  Under previous GAAP, the Company presented an unclassified balance sheet. Under IFRS, a classified balance sheet has been presented, resulting in the reclassification of certain amounts on the consolidated balance sheets between current and non-current assets and liabilities.

e) Changes to the consolidated statements of cash flows

Cash and cash equivalents increased by $17,000,000 as at December 31, 2010 due to the reclassification from short-term investments of GICs, with various maturities within one year but redeemable after 30 days from issue.

There were no other material adjustments to the consolidated statements of cash flows as a result of the adoption of IFRS.

5 Future accounting policy changes

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 (IAS 39). IFRS 9 will be issued in three phases. The first phase, which has already been issued, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting.

IFRS 9 establishes two primary measurement categories for financial assets: amortized cost and 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 will not change under IFRS 9, the fair value option will require fair value changes due to credit risk for liabilities designated at fair value through profit and loss generally to be recorded in other comprehensive income (OCI).

IFRS 9 amends 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. This standard is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted.

IFRS 10, Consolidated Financial Statements (IFRS 10)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) 12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements (IAS 27). This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 11, Joint Arrangements (IFRS 11)

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures (IAS 31), and SIC 13, Jointly Controlled Entities - Non-monetary Contributions By Venturers. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 12, Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurements. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases, does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Amendments to other standards

In addition to the issuance of new standards, as detailed above, there have also been amendments to existing standards, including IAS 1, Presentation of Financial Statements (IAS 1), IAS 19, Employee Benefits (IAS 19), IAS 27 and IAS 28, Investments in Associates (IAS 28).

The amendments to IAS 1 will require that entities group items presented in OCI based on an assessment of whether such items may or may not be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

Amendments to IAS 19 eliminate an entity's option to defer the recognition of certain gains and losses related to post-employment benefits and require remeasurement of associated assets and liabilities in OCI. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13, as outlined above. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company has not yet begun the process of assessing the impact the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

6 Real estate inventory

	2011 $	2010 $
Balance - Beginning of year	64,249,237	49,776,656
Additions - transfers from the shareholder (note 24)	88,167,402	21,704,193
Development costs	2,090,458	617,057
Transfer to cost of sales	(22,454,649)	(7,848,669)
Balance - End of year	132,052,448	64,249,237

7 Amounts receivable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Due from TWSI			
Rent and recoverable property taxes (a)	-	1,529,395	-
Straight-line rent (b)	653,575	395,018	136,461
Loan interest - TWSI (c)	201,862	273,057	128,561
Financing and legal fees - TWSI	107,501	343,602	-
	962,938	2,541,072	265,022
HST (d)	(94,977)	379,803	-
Other (e)	84,266	716,390	654,207
	952,227	3,637,265	919,229

a) Recoverable property taxes for the studio in 2010 reflect the initial property tax assessment for the film studio lands and billing for the first three years of operations.

b) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and Pinewood Toronto Studios Inc. (PTSI) (as tenant), PTSI was given a deferral of 50% of basic rent payable for a period of five years, starting June 22, 2009. This deferral is on an interest free basis.

c) Included in the 2011 balance is the present value of deferred loan interest of $201,862 due in 2039 (2010 - $154,853) (see note 12).

d) The 2011 credit is an HST payable on recoverable operating costs and rent; the 2010 balance represents initial delays collecting ITCs as it was a new company applying for credits.

e) The 2011 balance has a $77,271 shared service allocation to Invest Toronto Inc. (ITI). The 2010 balance has a leasehold improvement allowance from the landlord at 200 King Street West of $565,000.

8 Cash and cash equivalents and short-term investments

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents			
GICs - various maturities within one year but redeemable after 30 days of issue	900,725	17,000,000	-
Cash	40,396,347	1,672,027	120,072
	41,297,072	18,672,027	120,072
Short-term investments			
GICs - original maturities greater than three months	30,000	800,037	-

9 Investment property

	2011 $	2010 $
Balance - Beginning of year	40,408,531	23,937,212
Additions - transfers from the shareholder (note 24)	4,300,000	11,052,000
Development costs	619,564	1,699,066
Net gain from fair value adjustments to investment property	4,410,602	3,720,253
Balance - End of year	49,738,697	40,408,531

During 2011, approximately 70% (2010 - approximately 66%) of the total fair value of investment property was determined through external appraisals by independent valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

10 Equity accounted investments

The Company holds 20% equity interests in TWSI and Toronto Waterfront Studios Development Inc. (TWSDI). The investments are accounted for using the equity method.

On January 1, 2011, TWSI transferred its 100% controlling interest in the capital of TWSDI to its shareholders in proportions equal to their ownership in TWSI. Prior to 2011, TWSDI was consolidated with TWSI.

	TWSDI		TWSI	
	2011 $	2010 $	2011 $	2010 $
Balance - Beginning of year	-	-	2,361,985	3,165,364
Transfer	(8,390)	-	8,390	-
Advances	50,000	-	311,282	100,000
Share of net losses	(19,231)	-	(679,634)	(903,379)
Balance - End of year	22,379	-	2,002,023	2,361,985

For the years ending December 31, 2011 and December 31, 2010, TWSI and TWSDI reported the following financial positions and results from operations (TWSDI was consolidated with TWSI in 2010):

	TWSDI		TWSI	
	2011 $	2010 $	2011 $	2010 $
Assets	5,370,841	-	49,917,500	50,316,014
Liabilities	5,258,942	-	39,155,049	37,697,648
Equity	111,899	-	10,762,451	12,618,366
Revenue	-	-	9,697,024	5,506,034
Expenses	96,153	-	13,828,342	10,022,929
Net loss for the year	(96,153)	-	(4,131,318)	(4,516,895)

The Company's share of the losses from TWSI and TWSDI for fiscal 2011 at its 20% share is $698,865 (2010 - $903,379 loss).

The land and land improvements where the studio is situated were transferred from Toronto Port Lands Company (TPLC) to the Company on December 31, 2009 to facilitate financing and are classified as investment property under IFRS.

The fair value of the land and land improvements at Pinewood Toronto Studios Inc. was adjusted in 2011 using an independent appraisal of the site.

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 ending in June 2014. 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 BTHOI have been paid. Rent until the next annual rent adjustment date is $517,115 per annum.

The equity investment amount also includes $1,061,282 (2010 - $700,001) advanced to TWSI, of which $600,001 was originally funded by TPLC and was transferred to the Company as part of the transfer of assets in 2009. This amount was advanced as a shareholder's working capital contribution. 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.

11 Property, equipment and intangible assets

	Leasehold improvements $	Furniture and fixtures $	Computer equipment $	Website development $	Total $
Balance at January 1, 2010					
Cost	-	126,062	-	-	126,062
Accumulated depreciation and amortization	-	-	-	-	-
Opening net book value - January 1, 2010	-	126,062	-	-	126,062
Additions	801,595	326,957	107,233	-	1,235,785
Less: Depreciation and amortization	(64,645)	(75,503)	(29,787)	-	(169,935)
Ending net book value - December 31, 2010	736,950	377,516	77,446	-	1,191,912
Balance at December 31, 2010					
Cost	801,595	453,019	107,233	-	1,361,847
Accumulated depreciation and amortization	(64,645)	(75,503)	(29,787)	-	(169,935)
Opening net book value - January 1, 2011	736,950	377,516	77,446	-	1,191,912
Additions	26,344	22,771	16,257	21,448	86,820
Less: Depreciation and amortization	(79,378)	(91,802)	(38,029)	(2,349)	(211,558)
Ending net book value - December 31, 2011	683,916	308,485	55,674	19,099	1,067,174
Balance at December 31, 2011					
Cost	827,939	475,790	123,490	21,448	1,448,667
Accumulated depreciation and amortization	(144,023)	(167,305)	(67,816)	(2,349)	(381,493)
	683,916	308,485	55,674	19,099	1,067,174

12 Loans receivable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Loan receivable - PTSI (a)	-	25,578,255	26,921,801
Capitalized financing costs (a)	-	2,036,924	2,299,752
Long-term loan receivable - PTSI (a)	29,037,604	-	-
VTB mortgage (b)	2,084,981	-	-
Deferred payment loan - TWSI (c)	3,777,063	-	-
	34,899,648	27,615,179	29,221,553

a) In 2009, BTHOI acquired a loan receivable with a principal balance outstanding of $26,921,801 owing from TWSI from a financial intermediary who had originally lent the funds to TWSI. To acquire the loan receivable, the Company paid a premium of $2,299,752. The Company financed the loan receivable with funds borrowed from a financial institution and refinanced this loan payable in fiscal 2010 with funding from a government agency.

As at December 31, 2010, the principal amount outstanding on the loan receivable balance was $25,578,255. The loan receivable was due on September 1, 2018 and would have been settled with a balloon payment of $12,213,980. The loan had a fixed annual interest rate of 5.6%. The loan was collateralized with a leasehold mortgage and $5,000,000 in guarantees from the shareholders of TWSI and $9,000,000 was guaranteed by TPLC.

In 2010, the Company and TWSI entered into negotiations to refinance the loan receivable. The Company and TWSI also agreed that the interest rate differential between the interest charged on the loan receivable and the interest paid on the loan payable (note 12) would be loaned back to TWSI. As such, $87,563 in interest income that would otherwise have been earned in fiscal 2011 (2010 - $538,554) will now be recognized over the remaining term of the loan receivable. The Company has recorded a receivable of $201,862 (2010 - $154,853) as at year-end, which represents the present value of the interest income receivable.

On March 18, 2011, the Company replaced the loan receivable from PTSI with a long-term convertible facility with similar terms as the loan payable with the government agency described in note 16. The Company recovered the financing costs from the 2009 transaction when the new facility closed and recognized related financing fees of $800,000. The total facility is $34,500,000, which can be accessed with draw requests, until the third anniversary when the then outstanding amount is amortized over 25 years. The loan earns interest of 1.95%, reset monthly at the government agency's average monthly cost of funds and is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of Pinewood Toronto Studios Inc. (PTSI).

On the settlement date, a gain of $3,069,752 was recognized relating to the prepayment penalty not originally passed on to PTSI.

As a condition of the loan with the government agency, the Company has agreed to maintain additional asset value coverage of $30,500,000 in excess of the $4,000,000 in guarantees provided by the other shareholders of TWSI. The Company charges a guarantee fee to TWSI of 1% of 80% of the shortfall ($24,400,000). This fee is due annually on March 18 in advance and the rate of 1% reduces by 50% each year on the anniversary date for a five-year term.

b) On December 16, 2011, the Company sold land to a residential developer for $1 million cash and a vendor take-back (VTB) mortgage of $2,244,420. The mortgage, secured by the land, is interest free until the earlier of December 17, 2012, or such time as a change in zoning is achieved. If the change in zoning is achieved prior to December 17, 2012, the mortgage will mature and become due and payable. If required zoning for the property has not been achieved by December 17, 2012, the term of the VTB mortgage shall be extended and will bear interest at 8% per annum, accruing and calculated quarterly from December 18, 2012, and interest only payments shall be payable quarterly until the earlier of December 16, 2013 or such time as the required zoning is achieved. For greater certainty, the VTB shall mature and become due and payable no later than December 16, 2013. The loan was recognized initially at its fair value of $2,084,981.

c) 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 16. The loan bears interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest due on June 23, 2012, and maturity on June 23, 2014. The loan is secured by a pledge of 1,000 common shares of PTSI.

13 Amounts payable and other liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables			
General	856,341	596,812	77,632
Property taxes - TWSI	-	1,529,395	-
Accruals	2,037,628	1,483,867	-
Total payables and accrued liabilities	2,893,969	3,610,074	77,632
Deferred lease inducement	464,761	519,435	-
Deferred lease escalations	102,522	97,964	-
Unearned revenue - prepaid guarantee fee - TWSI	51,831	-	-
Total amounts payable and other liabilities	3,513,083	4,227,473	77,632

14 Environmental provision

An environmental provision is recorded for the Company's obligations to address environmental issues with the land held by the Company.

Additional information related to the Company's environmental provision is provided below:

	$
Opening balance - January 1, 2010	500,000
Additions to the provision	1,925,000
Less: Amounts paid/utilized	-
Balance - December 31, 2010	2,425,000
Additions to the provision	17,585,066
Less: Amounts paid/utilized	-
Balance - December 31, 2011	20,010,066

15 Dividend payable

On December 9, 2011, the Board of Directors of the Company approved a dividend payable to the shareholder to be paid on February 22, 2012.

16 Debt

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Long-term loan payable - government agency (a)	29,037,604	-	-
Bridge loan payable (a)	-	29,000,000	30,000,000
Deferred loan payable to TPLC (b)	3,777,063	-	-
Debt	32,814,667	29,000,000	30,000,000

a) On December 31, 2009, to assist with the debt restructuring at TWSI, the Company entered into an interest only bridge loan of $30,000,000 with a Canadian financial institution. The loan had interest at prime and was secured by assets of BTHOI and the Company. Proceeds of the loan were used to acquire a loan owing from TWSI to a financial intermediary.

On May 28, 2010, while negotiations were ongoing, the matured bridge loan was refinanced with an interim bridge loan for $29,000,000, from the same government agency, which bore interest only at prime, secured by assets of BTHOI and the Company.

On March 18, 2011, with negotiations with TWSI finalized, the interim bridge loan was replaced with a new long-term facility with the same government agency. The new facility is for a maximum of $34,500,000 of which $29,000,000 was borrowed to repay the bridge loan. An additional $5,462,937 is available until

March 18, 2014, to be drawn to fund construction improvements at TWSI. The new facility is interest only for the first three years, currently at 1.95%, to be reset monthly to the government agency's borrowing rate; thereafter, the interest rate will be fixed and the ending principal amount will be amortized over 25 years. The Company has the ability to fix the interest rate on the new facility within the first three years of the term. The Company accounted for the restructuring of the loan payable as an extinguishment of debt and thus derecognized the previous loan, resulting in a loss of $1,980,401, related to the writeoff of the prepayment penalty paid when acquiring the original loan in 2009. The loan is secured by the assets of BTHOI, corporate guarantees of BTHOI and the Company.

b) As part of a trailing obligation 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 12 and set up a loan payable with identical terms with TPLC. The loan bears interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest due on June 23, 2012, and maturity on June 23, 2014. The loan is secured by a pledge of common shares of PTSI.

17 Shareholder's equity

The number of shares authorized and the number of shares issued and outstanding is one common share.

18 Rental revenue

Investment property rental revenue is comprised as follows:

	2011 $	2010 $
Leases	517,114	519,849
Licences	107,072	79,033
Parking	95,505	2,250
Recoverable operating costs and property taxes	925,863	1,529,395
Total investment property rental revenue	1,645,554	2,130,527

19 General and administrative expenses

General and administrative costs, net of allocations to TPLC and ITI, consist of the following:

			2011
	Gross $	Allocation $	Net $
Salaries and benefits	6,316,006	(465,025)	5,850,981
Office services	468,199	(55,088)	413,111
Office occupancy	665,241	(219,632)	445,609
Professional fees	614,137	(10,841)	603,296
Marketing and promotion	91,939	-	91,939
	8,155,522	(750,586)	7,404,936

			2010
	Gross $	Allocation $	Net $
Salaries and benefits	5,066,779	(387,220)	4,679,559
Office services	439,889	(49,107)	390,782
Office occupancy	424,544	(121,126)	303,418
Professional fees	503,725	(45,250)	458,475
Marketing and promotion	206,695	-	206,695
	6,641,632	(602,703)	6,038,929

20 Net gain on derecognition of loans receivable and payable

	2011 $	2010 $
Gain on derecognition of loan receivable (note 12)	3,069,752	-
Loss on extinguishment of debt (note 16)	(1,980,401)	-
Net gain on derecognition of loans receivable and payable	1,089,351	-

21 Interest income

	2011 $	2010 $
Investments	145,738	37
Mortgage receivable interest	237,358	920,337
Other interest - late payment penalty	51,719	-
Loan interest - PTSI	562,927	-
Total interest income	997,742	920,374

22 Employee benefits

Post-employment benefits

The Company 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. 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 in 2011, which were expensed, total $381,991 (2010 - $299,605) and are included in salaries and employee benefits expense on the consolidated statements of comprehensive income.

Key management 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 includes the President and Chief Executive Officer, Chief Financial Officer and directors. The compensation paid or payable to key management for employee services is shown below:

	2011 $	2010 $
Salaries and other short-term employee benefits and termination benefits	1,806,582	1,691,511
Directors' fees	103,111	120,175
	1,909,693	1,811,686

23 Supplemental cash flow information

	2011 $	2010 $
Decrease (increase) in amounts receivable	2,943,595	(2,459,479)
Decrease in prepaid expenses	22,038	224,024
Increase in VTB mortgage	(2,084,981)	-
(Decrease) increase in due to related parties	(656,478)	8,683,987
(Decrease) increase in amounts payable and other liabilities	(764,506)	4,202,240
Changes in non-cash working capital	(540,332)	10,650,772

Amounts due to related parties were drawn down by $10,774,426 during 2011 with a corresponding increase in contributed surplus (see note 24 for details).

24 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 (operating as Toronto Port Lands Company (TPLC))	same parent
Toronto Transit Commission (TTC)	same parent
Invest Toronto Inc. (ITI)	same parent
Toronto Waterfront Studios Inc. (TWSI)	investee, tenant, debtor
Toronto Waterfront Studios Development Inc. (TWSDI)	debtor, investee

Transfers from the City and related entities

During the year, transfers from the shareholder included in investment property as described in note 9 and in real estate inventory as described in note 6 have been recorded at fair values with corresponding amounts recorded in contributed surplus. A property sold in 2010 for net proceeds of $19 million, was recognized as a transfer from the TTC in 2009.

Toronto Port Lands Company

Due to related parties as at December 31, 2011 is an unsecured amount of $811,169 (2010 - $12,242,073) payable to TPLC. In 2008, two parcels of land were designated by the City to be transferred from TPLC. During 2010, the properties were sold by TPLC for net proceeds of $10,774,426, and in June of 2011, the net effect of the sale was used to reduce the amount payable to TPLC by the Company with a corresponding increase to contributed surplus. There is no set term of repayment of this amount and no interest is being charged by TPLC.

During 2011 and 2010, the Company had an arrangement whereby certain office services, occupancy and staffing costs were shared with TPLC and ITI. The allocation of these costs are highlighted in note 19.

Invest Toronto Inc.

Included in amounts receivable is an amount of $77,271 (2010 -$61,912) due from ITI to the Company related to the shared services allocation discussed above.

Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.

The Company has a 20% ownership interest in TWSI and TWSDI (see note 10). 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 31, 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 (see notes 12 and 16). The Company's debt as described in note 16 is as a result of the restructuring and assistance provided by the Company to TWSI. Pursuant to the terms of the promissory note, the Company is required to guarantee the obligations of TWSI and in return the latter will pay the Company a loan guarantee fee income. For the year ended December 31, 2011, the Company charged TWSI guarantee fee income of $192,526 (2010 - $nil). For the year ended December 31, 2011, the Company received loan interest income of $562,927 (2010 - $1,452,941) from TWSI.

Included in rental revenue at December 31, 2011 is $1,434,349 (2010 - $2,084,694) received from TWSI.

25 Commitments and contingencies

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

	$
2012	282,500
2013	282,500
2014	282,500
2015	296,625
2016	310,750
Thereafter	1,087,625
	2,542,500

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. The Company is not aware of any such legal actions at this time.

26 Capital management

The Company's capital is comprised of debt and shareholder's equity. 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 to the shareholder. The current long-term loans payable and loans receivable closely mirror the same terms.

27 Financial instruments - risk management

The Company's investment and operating activities expose it to a range of financial risks. These risks include credit risk, liquidity risk, interest rate risk and currency 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 balance sheets represents the maximum credit risk exposure at the date 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. No allowance for doubtful accounts was recorded at December 31, 2011.

The long-term loans receivable from TWSI is collateralized with a leasehold mortgage and $4,000,000 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. The VTB mortgage is due no later than December 16, 2013 and is secured by the land sold to a residential developer. The developer cannot resell the severed lots prior to discharging the VTB. Management believes the Company's credit risk is low.

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, 2011, all obligations except the loans payable of the Company discussed in note 16 are due within one year.

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, whose interest rate is based on the government agency's average borrowing rate until the rate is fixed, and its cash balances. As at December 31, 2011, 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 $290,376. Any increase would be passed along to TWSI as loan interest receivable. The deferred loan payable has a matching loan receivable and the interest rate is fixed by contract at 6%.

Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. As at December 31, 2011, the Company held no financial instruments that we denominated in other than Canadian currency.

28 Financial instruments - fair value

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, loans receivable, advances to TWSI included in equity accounted investments, trade payables, due to related parties and debt. With the exception of cash, all other financial instruments are recorded at cost or amortized cost, which approximates fair value.

IFRS requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the consolidated financial statements date. The three levels are defined as follows:

- Level 1 - fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.
- Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds and certain derivative contracts.
- Level 3 - Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

As at December 31, 2011, cash and cash equivalents of $41,297,072 (2010 - $18,672,027) are classified in the Level 1 category.

Build Toronto Inc.
200 King Street West, Suite 200
Toronto, ON M5H 3T4

T: 416 981.3889
F: 416 981.3800
www.buildtoronto.ca