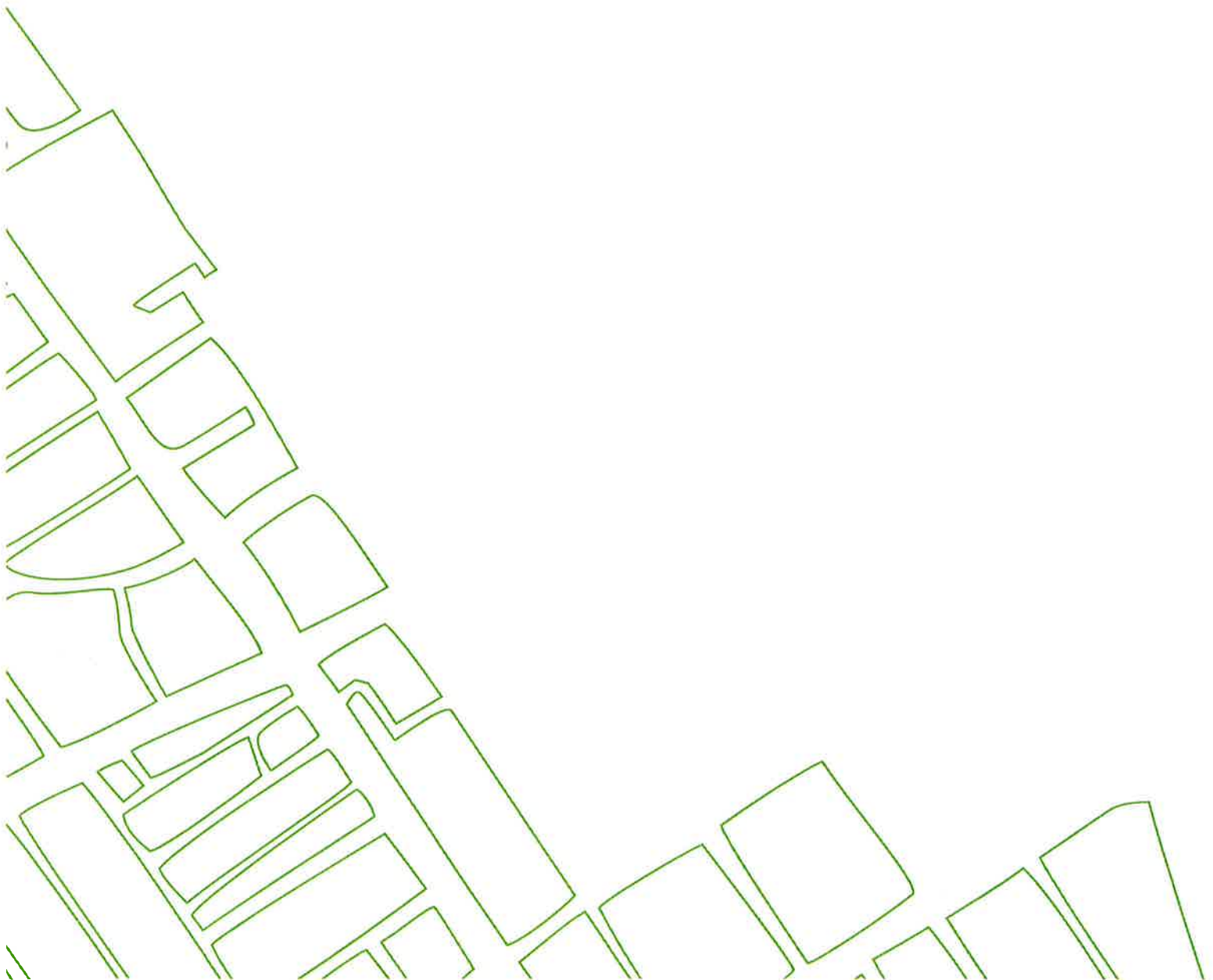


**BUILD  
TORONTO**

## FINANCIAL REPORT TO THE SHAREHOLDER

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June 9, 2015





## Letter from BUILD TORONTO Chair and President & CEO

June 9, 2015

As set out in the 2009 BUILD TORONTO Shareholder Direction, we are pleased to submit the Board-approved Audited Financial Statements for the fiscal year ending December 31, 2014, and the accompanying Management, Discussion and Analysis (MD&A).

2014 was a successful year for BUILD TORONTO with a return to profitability. With a portfolio of about 35 projects, we have focused our efforts on approximately 18 projects throughout the year achieve both City-Building goals and deliver financial returns to the City and ultimately, to revitalize underutilized land through new development.

### **BUILD TORONTO has accomplished the following over the course of 2014:**

- **\$14.8 million profit**
- **Declared a dividend of \$15 million**
- **\$33.1 million in revenue from property transactions**
- **\$8.8 million in capital spend in on-going development projects**
- **2 significant development projects sold and moved to private developers**
- **Successfully streamlined operations to meet current business environment**

**In summary, BUILD TORONTO has accomplished the following to date, since inception:**

### **FINANCIAL VALUE**

- **\$182 million** in total revenue from property transactions
- **\$28.5 million** invested in our development projects
- Value creation of approximately **\$84.6 million**
- **\$45 million** in dividends paid to the City

- **14** development projects sold to the private sector, 3 of which have been completed and 4 of which have broken ground.
- **2** joint venture projects
- **\$12.4 million** in development fees and charges paid to the City
- **\$17.1 million** in property taxes paid to the City
- **\$10.3 million** in section 37 contributions

## CITY-BUILDING VALUE

- Identified to complete or start approximately **250 affordable housing units on 6 sites by the end of 2017**, with **400-600 additional affordable housing units on 5 further sites**.
- Held **40 community meetings** and engaged over **1,600 community members**
- Plans for approximately **18 acres of new and programmed park and open space**
- Plans for approximately **5 kilometres of shared bike lanes**
- Plans for approximately **17,500 new residential** units
- Plans for **6 adaptive reuse projects**, 3 of which are already sold to private developers
- Facilitated development on **6 sites with a heritage aspect**, 2 of which are already sold to private developers
- Initiated remediation on **10 Brownfield** sites
- Revitalizing a total of **448 years of vacant land**
- Development plans that will generate **\$1.9 billion in labour income** in Toronto
- Development plans that will accommodate **17,890 employees** in **4 million square feet of commercial space**
- Plans for **14 sites with direct access to a transit station**
- Plans for **10 sites on the future Eglinton Crosstown Line**
- Plans for **150 acres around higher order transit**

**BUILD TORONTO's 2014 Business Operations included the following highlights:**

- BUILD TORONTO's outreach program over the course of 2014 has focused on building a collaborative working relationship with all City of Toronto stakeholders to support real estate development opportunities and real estate strategies.
- We have developed a means of measuring and tracking our City-Building Strategic Priorities, which include activities such as environmental remediation, community engagement and affordable housing. All development project business plans have established City-Building targets. BUILD TORONTO uses these measurements across our portfolio to identify and communicate its progress in achieving our City-Building goals.
- To continue to attract best-in-class development partners, BUILD TORONTO invests in its portfolio of projects to increase value of sites, decrease the risk to potential partners and buyers and increase overall City-Building opportunity.

**Looking forward, BUILD TORONTO will leverage its strengths to take advantage of the incredible potential and opportunities that exist, and address areas that require improvement, as follows:**

- Clarify and promote BUILD TORONTO's vision by meeting the demands of the City and its residents, and embrace the mandate to create value in terms of City-Building and financial returns.
- Improve transparency and accountability through better reporting and communication of BUILD TORONTO's role, its objectives and measurable achievements.
- Work with the City to address the lack of new development land
- Develop and execute on new strategies to obtain both large and smaller sites where BUILD TORONTO can add value.

- Achieve “better” outcomes through the development, investment and sale of property.
- Foster an image of collaboration throughout BUILD TORONTO’s product life cycle.
- Focus on development opportunities that support the City’s transit initiatives.
- Set and establish specific affordable housing targets for the next five years, develop and negotiate “preferred supplier” arrangements with affordable home providers, and reach an agreement with the Affordable Housing Office on funding and also establish a repeatable model for implementation.

While we have a set a strong foundation, we are facing challenges such as a lack of new quality sites with development potential being identified in the transfer process, and balancing short-term expectations and long-term goals. In order to leverage our strengths and address our challenges, the 2015-2019 Strategic Plan set out a plan to position BUILD TORONTO as the driver to help the City realize greater development potential and support the vision for real estate development.

The focus over the next year will be on continuing to support the City and its stakeholders while increasing short-term deliverables and planning for strategic long-term goals within the existing portfolio.

(Signed Bill Bryck)

William (Bill) Bryck  
President & CEO

(Signed Chris Voutsinas)

Christopher Voutsinas  
Chair

## Management Discussion and Analysis

2014 was a successful year for BUILD TORONTO. With the help of a restructured team and the support and direction of our Board, BUILD TORONTO pushed hard on many fronts to achieve its City-Building goals and deliver financial returns to the City.

With BUILD TORONTO's revenues increasing and a return to profitability for 2014, the efforts of the company remain focused on longer term development projects to meet the future demand with relevant products and continuing our "City-Building" initiatives. Financial highlights for BUILD TORONTO's 2014 operations are:

- Declared a \$15 million dividend in April 2015 in consideration of our 2014 results, recently paid to our Shareholder, the City of Toronto, for a total of \$45 million since our inception in 2009.
- Net Income for 2014 of \$14.8 million, with total Net Income since inception of \$67.5 million.
- Invested approximately \$8.8 million of capital in on-going development projects.
- "Value Creation" of \$21.9 million this year, with approximately \$84.6 million to date.
- Total real estate assets of \$168.5 million at the 2014 year end, versus \$156.2 million for the prior year, an increase of approximately \$12.3 million, with Total Assets of \$303 million, an increase of approximately \$29 million from the previous year.
- Revenue of \$33.1 million, totaling approximately \$182 million since our commencement
- Shareholder's Equity is \$245.6 million at end of 2014, an increase of approximately \$30 million from the end of 2013.

Although sales are the most evident measure of BUILD TORONTO's activities, the majority of BUILD TORONTO's efforts continue to be longer term development projects, which not only achieve financial goals, but also support our strategic initiatives of Engagement, Livable Neighbourhoods, Sustainability, Employment and Transit-Oriented Development. These development activities include conceptual design, zoning, site preparation, leasing, partnering with best-in-class real estate organizations, environmental remediation, infrastructure planning and potentially construction. The time frame of these sales activities is dependent on the extent of the development that BUILD TORONTO believes will maximize the return on the properties. On certain sites, the activities may include only conceptualization and zoning, while other projects may be moved further through the development cycle, with a majority of our longer term efforts expected to be carried out with well respected and professional partners. While the majority of the value creation will only be seen upon the completion or sale of these properties, there are direct signs of this activity through the capitalization of development costs to these projects.

BUILD TORONTO is involved in significant City-Building activities, facilitated through terms in the sale agreements on sites that we have sold, directly on sites that BUILD TORONTO is developing, as well as on other sites owned by the City. For example, BUILD TORONTO was entrusted by the City to manage the development of the Fort York Pedestrian and Cycle Bridge and master plan the Eireann Quay area. On sites within BUILD TORONTO's portfolio, we are working on projects to promote affordable housing, adaptive re-use of existing and at times historic buildings, constructing and planning for parks, roads and infrastructure, etc. These are time and capital intensive projects and although the full value of these

efforts can't be demonstrated in our financial statements, once complete, the benefits to the City will be evident.

### Financial Report for 2014

BUILD TORONTO's financial statements are presented using International Financial Reporting Standards (IFRS). The utilization of IFRS has a significant impact on the manner in which the financial statements are presented and on the financial amounts reported (Please see note 2 of the Financial Statements for further information). Although BUILD TORONTO obtains properties from the City at nominal value, we value these surplus properties at their fair market less selling costs after acceptance and the completion of due diligence by BUILD. The properties recorded on BUILD TORONTO's financial statements are listed at the end of the MD&A.

These surplus properties received from the City, are initially recorded at the "highest and best use" fair market value and are classified on the Balance Sheet in two main categories:

- (i) Real Estate Inventory; properties that BUILD TORONTO plans on selling in normal course (which process would include development activities to increase value) and;
- (ii) Investment Properties; properties that have been acquired with the objective of holding the asset for a longer period of time to earn rental income, capital appreciation or both.

Subsequent to initial recognition, Investment Properties are carried at fair value, and revalued every year, with the increase or decrease in value recorded as unrealized income or loss for the year in the Income Statement. Real Estate Inventory is carried at the lower of cost, assumed to be fair market value for these non-arm's length transfers from the City, and net realizable value.

After reviewing a number of factors, including the sales activity regarding Investment Properties during 2014 and the change in the intention to the holding period of these assets, BUILD TORONTO reclassified 4 Investment Properties recorded at approximately \$45.9 million, effective January 1, 2014, as Real Estate Inventory, to better reflect the shorter term hold period of these assets. Inventory properties increased by \$58.1 million to \$153.9 million at December 31, 2014, as compared to \$95.8 million at December 31, 2013 as a result of the above mentioned reclassification. The result of a transfer of a property to BUILD TORONTO from the City in the amount of \$15.6 million, capitalized development costs of \$7.2 million, offset by the cost of sales of two assets dispositions.

At the year ended December 31, 2014, BUILD TORONTO had Investment Properties of \$14.7 million versus \$60.3 million at the end of 2013, mainly as a result of the reclassification of certain investment properties as noted above, leaving one property in this category.

During the year, BUILD TORONTO collected \$24.2 million of Vendor Take Back (VTB) Loans (with accrued interest) that were used to maximize the sales revenues on the prior years' sales of properties. At December 31, 2014, BUILD TORONTO had no short term VTBs outstanding, and has only one remaining non-current loan receivable, in the amount of \$1.6 million, due in 2016. Other current assets are Loans Receivable in the amount of \$36.2 million, comprised of \$33.4 million owed by Pinewood Toronto Studios Inc., which is classified as current as the loan is converted long-term financing, and a

Deferred Payment Loan to Toronto Waterfront Studios Inc. (Pinewood) of \$2.8 million due in June 2015.

During the year ended December 31, 2014, BUILD TORONTO's cash increased by approximately \$41.7 million to \$72.8 million at December 31, 2014, from \$31.1 million at December 31, 2013. This occurred mainly as a result of the increased sales and collection of BUILD TORONTO's VTBs, offset by the capitalized costs and general and administrative expenses. A portion of the cash balance will be used to fund a \$15 million dividend declared in 2015, payable to our Shareholder, The City of Toronto. Overall, BUILD TORONTO's total assets have increased by approximately \$28.6 million to \$303.1 million at December 31, 2014, from \$274.5 million at December 31, 2013 as a result of the activity noted above.

When real estate properties are acquired by BUILD TORONTO from the City of Toronto for nominal consideration, "physical" liabilities are assumed, such as environmental liabilities to remediate the sites. The properties are initially recorded at their fair value, as noted above, with a reduction attributable to the estimated remediation costs when they are acquired. As noted above, costs of acquiring these properties from the City can often be substantial if remediation is required to address environmental issues, geotechnical concerns, etc. These costs are accrued upon acquisition.

Liabilities at December 31, 2014 include accrued environmental remediation costs totaling \$17.3 million at December 31, 2014, compared to \$17.5 million at the end of 2013, which remained virtually unchanged other than a re-categorization of a portion of this amount as a current liability. The provision is the discounted value of future environmental costs recorded upon the acquisition of certain real estate assets for clean-up and demolition costs, and is reduced when those costs are expended. As noted above regarding the current loans receivable, there is a current amount payable in relation to Pinewood, which mirrors the current receivable noted above of \$36.2 million.

The equity to date represents the contribution of these properties through contributed surplus (as noted at fair market value less obligations) and the cumulative operations and dividends paid to date. The Equity has increased to \$245.6 million at December 31, 2014 from a December 31, 2013 amount of \$215.5 million. This is due to the Net Income for the year of \$14.8 million and the receipt of a property from the City in the amount of \$15.6 million.

Sales of Real Estate Inventory for the year ended December 31, 2014 was \$33.1 million, as compared to \$2.3 million for the corresponding period in 2013, and approximately \$182 million since operations began in 2010. Cost of sales was \$11.2 million for the year ended December 31, 2014, while Gross Profit from real estate sales was \$21.9 million versus \$1.3 million for December 31, 2013, and \$84.6 million to date since inception. BUILD TORONTO refers to this amount as "Value Creation" since it represents the realized increase in price from a sale over the value of the property from the City when added to our portfolio and the costs spent in development, investment and marketing of the properties. In other words, this year's amount of \$21.9 million, and \$84.6 million since inception, represents the increased value after costs, over the fair value of the property from the City. When BUILD TORONTO records sales under IFRS, the accounting profit is reduced by the fair market value cost of sales of these assets based on appraisals, which results in a lower profit from real estate sales, than if the sales were recorded at their actual cost from the City, which is nominal. The majority of the cost of sales is non-cash items; therefore the cash generated by these sales is much greater, as demonstrated on the



Consolidated Statement of Cash Flow. This accounting treatment demonstrates the true “value creation” 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 City-Building initiatives within the projects.

Investment Property net Property Income for the year ended December 31, 2014 at \$0.75 million was approximately the same as last year at \$0.76 million.

As noted above, due to the reclassification of certain Investment Properties to Inventory Properties, the Net Gain from fair value adjustments to the remaining investment property was only \$0.25 million for the year ended December 31, 2014, versus \$5.0 million for the same period last year. This is an unrealized non-cash amount.

Although General and Administrative expenses of \$8.2 million for the year ended December 31, 2014 appears to be only \$0.1 million lower than the prior year costs of \$8.3 million, as disclosed in Note 27 to the Consolidated Financial Statements, this is after recording a restructuring provision of \$1.2 million. The annual 2014 salaries and benefits of \$5.5 million is \$1.3 million lower than 2013 annual salaries and benefits of \$6.8 million.

Interest Income was \$2.7 million for the year ended December 31, 2014, approximately flat compared to the amount from the same period last year of \$2.8 million, with strong income from the interest earned on BUILD TORONTO’s VTB mortgage program. Financing costs relating to the accretion of environmental provision were \$0.4 million higher than last year at \$1.2 million for the year ended December 31, 2014, as a result of change in the discount rate and the timing of the costs. The financing costs related to the environmental provision are also a non-cash amount.

The Net Income and total comprehensive income for the year ended December 31, 2014 was \$14.8 million, an increase from last year’s Net Loss and total comprehensive loss for the year ended December 31, 2013 of \$2.0 million.

Although BUILD TORONTO returned to profitability this year with the help of a restructured team and the support and direction of our Board, the majority of our efforts continue to be on developing our existing real estate assets and generating returns through City-Building initiatives for our Shareholder, the City of Toronto.

The properties currently recorded on BUILD TORONTO’s books:

<b>Properties</b>		<b>Partnerships</b>
225 Commissioners (Pinewood)	805 Don Mills Road	10 York Street
1035 Sheppard Avenue West (Downsview)	28 Bathurst Street	Ordnance Triangle
301 Rockcliffe Boulevard	2 Bicknell Avenue	
30 Tippett Road	411 Victoria Park Avenue	
50 Wilson Heights Boulevard	383 Old Weston Road	
4650 Eglinton Avenue West	20 Dunelm Street	
1978-2000 Lake Shore Blvd	297 Sixth Street	
75 Billy Bishop Way	505 Richmond Street West	

# **Build Toronto Inc.**

Consolidated Financial Statements  
**December 31, 2014**



April 27, 2015

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of Build Toronto Inc. which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

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

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

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

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*PricewaterhouseCoopers LLP  
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, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants, Licensed Public Accountants**

**Build Toronto Inc.**  
Consolidated Statements of Financial Position

	Note	December 31 2014 \$	December 31 2013 \$
<b>Assets</b>			
<b>Current assets</b>			
Real estate inventory	6	153,865,064	95,833,039
Pre-acquisition costs	7	2,536,873	2,471,926
Due from related parties	8	2,150,774	5,308,589
Amounts receivable	9	2,972,717	2,963,831
Prepaid expenses		215,301	91,623
Loans receivable	16	36,162,766	25,469,452
Cash and cash equivalents	10	72,812,077	31,074,973
<b>Total current assets</b>		<u>270,715,572</u>	<u>163,213,433</u>
<b>Non-current assets</b>			
Investment property	11	14,650,000	60,349,841
Investment in equity accounted investments	12	1,990,858	1,828,980
Investment in joint venture	13	12,157,658	12,148,713
Property, equipment and intangible assets	14	535,267	716,543
Amounts receivable	15	1,430,864	1,306,775
Loans receivable	16	1,589,778	34,895,048
<b>Total non-current assets</b>		<u>32,354,425</u>	<u>111,245,900</u>
<b>Total assets</b>		<u>303,069,997</u>	<u>274,459,333</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Amounts payable and other liabilities	17	4,023,452	4,332,280
Environmental provision	18	5,491,248	900,000
Debt	19	36,165,776	3,776,461
<b>Total current liabilities</b>		45,680,476	9,008,741
<b>Non-current liabilities</b>			
Environmental provision	18	11,833,850	16,598,020
Debt	19	-	33,406,788
<b>Total liabilities</b>		57,514,326	59,013,549
<b>Shareholder's Equity</b>			
<b>Total equity</b>		<u>245,555,671</u>	<u>215,445,784</u>
<b>Total liabilities and shareholder's equity</b>		<u>303,069,997</u>	<u>274,459,333</u>

**Commitments and contingencies (note 33)**

**(signed) "Christopher Voutsinas"**  
**Director**

**(signed) "Frank Bucys"**  
**Director**

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

**Build Toronto Inc.**

## Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31

	Note	2014 \$	2013 \$
<b>Real estate inventory</b>			
Sale revenue	21	33,128,798	2,254,698
Cost of sales	22	(11,196,410)	(971,036)
		<u>21,932,388</u>	<u>1,283,662</u>
<b>Net rental income</b>			
Rental revenue	23	3,199,827	1,995,788
Property operating expenses	24	(2,454,264)	(1,230,085)
		<u>745,563</u>	<u>765,703</u>
<b>Other income</b>			
Guarantee fee	25	36,930	73,871
Interest income	26	2,661,260	2,766,384
Share of net loss from equity accounted investments	12	(174,365)	(695,710)
		<u>2,523,825</u>	<u>2,144,545</u>
<b>Other expenses</b>			
General and administrative expenses	27	(8,218,826)	(8,313,531)
Project investigative costs	28	(161,694)	(849,089)
Depreciation and amortization	14	(217,937)	(227,353)
Finance costs	29	(876,160)	(846,372)
Finance costs - Accretion of environmental provision	30	(1,159,908)	(828,001)
		<u>(10,634,525)</u>	<u>(11,064,346)</u>
<b>Fair value adjustments and other activities</b>			
Net gain from fair value adjustments to investment property	11	250,000	5,010,197
Revaluation of real estate inventory	6	-	(2,469,285)
Revaluation adjustment of environmental provision	18	-	2,253,975
		<u>250,000</u>	<u>4,794,887</u>
<b>Net income (loss) and comprehensive income (loss) for the year</b>		<u>14,817,251</u>	<u>(2,075,549)</u>

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

**Build Toronto Inc.**

## Consolidated Statements of Changes in Equity

For the years ended December 31

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	<b>Note</b>	<b>Common shares \$ (note 20)</b>	<b>Contributed surplus \$</b>	<b>Retained earnings \$</b>	<b>Total shareholder's equity \$</b>
<b>Balance - January 1, 2013</b>		1	196,167,161	32,453,735	228,620,897
Net loss for the year		-	-	(2,075,549)	(2,075,549)
Transfer of properties from (to) the shareholder					
Inventory property	32	-	2,560,000	-	2,560,000
Other	32	-	(3,659,564)	-	(3,659,564)
Dividends paid	20	-	-	(10,000,000)	(10,000,000)
<b>Balance - December 31, 2013</b>		1	195,067,597	20,378,186	215,445,784
Transfer of properties from the shareholder					
Inventory property	32	-	15,292,636	-	15,292,636
Net income for the year		-	-	14,817,251	14,817,251
<b>Balance - December 31, 2014</b>		1	210,360,233	35,195,437	245,555,671

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

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

	Note	2014 \$	2013 \$
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net income (loss) for the year		14,817,251	(2,075,549)
Items not involving cash:			
Straight-line rent		(258,557)	(258,557)
Deferred lease inducement/escalations amortization		50,112	50,116
Share of net loss from equity accounted investments	12	174,365	695,710
Adjustment to investment in joint venture	13	-	(148,713)
Project investigative costs written off	28	143,752	776,358
Net gain from fair value adjustments to investment property	11	(250,000)	(5,010,197)
Inventory land value write-down	6	-	2,469,285
Environmental provision adjustment	18	-	(2,253,975)
Accretion of environmental provision	18 & 30	1,159,908	828,001
Non-cash interest income	26	(35,625)	(171,277)
Amortization and depreciation	14	217,937	227,353
Net loss from derecognition of intangible assets	14	-	19,094
(Gain) loss on disposal of computer equipment		(44)	4,021
Real estate inventory			
Additions to real estate inventory	6(b)	(7,024,423)	(2,971,229)
Government grants	6(c)	(148,750)	175,000
Cost of sales	6(f) & 18	10,842,410	996,098
Pre-acquisition costs			
Additions	7(a)	(1,200,314)	(1,481,049)
Cost of sales	7(b)	-	22,856
Changes in non-cash working capital	31	23,630,887	11,603,426
<b>Net cash provided by operating activities</b>		<b>42,118,909</b>	<b>3,496,772</b>
<b>Investing activities</b>			
Investment property development costs	11	-	(1,940,081)
Purchase of property, equipment and intangible assets	14	(36,661)	(31,159)
Cash proceeds on disposal of computer equipment		44	89
Addition to joint venture	13	(8,945)	-
Advance to equity accounted investments	12	(336,243)	(526,243)
Repayment (additions) of loans receivable	16(b)	1,000,000	(4,366,174)
Paydown of interest on deferred payment loan receivable	16(b)	219,655	219,340
Redemption of short-term investments		-	30,360
<b>Net cash provided by (used in) investing activities</b>		<b>837,850</b>	<b>(6,613,868)</b>
<b>Financing activities</b>			
(Repayment) additions of loan payable	19(b)	(1,000,000)	4,369,184
Interest paid on debt	19(b)	(219,655)	(219,340)
Payment of dividends	20	-	(10,000,000)
<b>Net cash used in financing activities</b>		<b>(1,219,655)</b>	<b>(5,850,156)</b>
<b>Increase (decrease) in cash and cash equivalents during the year</b>		<b>41,737,104</b>	<b>(8,967,252)</b>
<b>Cash and cash equivalents - Beginning of year</b>		<b>31,074,973</b>	<b>40,042,225</b>
<b>Cash and cash equivalents - End of year</b>	10	<b>72,812,077</b>	<b>31,074,973</b>

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



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2014

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### 1. Organization

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

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2014. To mitigate risk, the Company's principal operating company is Build Toronto Inc. and the portfolio of properties and investments in associates and joint arrangements are held by 100% wholly owned subsidiaries.

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

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

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## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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## **2. Significant Accounting Policies**

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

### **Statement of compliance**

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

### **Basis of presentation**

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

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

### **Basis of measurement**

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

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

### **Basis of consolidation**

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

### **Real estate assets**

- Real estate inventory

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

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

## **Build Toronto Inc.**

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

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

- Investment property

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

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

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

Where investment property is land under development not generating rental income, the Company estimates the fair values using a direct comparison method. Fair values are examined using current sales data for similar properties where possible or property-specific appraisals are commissioned. These appraisals are based upon the highest and best use value given any known restrictions to the end use that all market participants would be expected to comply with and would be factored into the pricing accordingly. These current fair values are subsequently adjusted by any costs to complete the development to bring the property to the condition which achieves its highest and best use as reflected

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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by the appraisal. The costs to complete are estimated using engineering reports and the judgment of management.

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.

- Transfers of property between investment property and inventory

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

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

- Pre-acquisition costs

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

#### **Equity accounted investments**

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

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

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

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

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

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

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

#### **Property, equipment and intangible assets**

Property, equipment and intangible assets include leasehold improvements, furniture and fixtures, software licence, computer 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, and software licence	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 recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statements of net income (loss) and comprehensive income (loss) during the period in which they are incurred.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

Property, equipment and intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of net income (loss) and comprehensive income (loss) 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, the primary sources of real property, which the Company is mandated to improve and hold for future cash flows (investment property) and sale (real estate inventory), are City council deemed surplus land and deemed surplus property held by other City controlled entities.

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

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

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

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

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Revenue recognition

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

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

Interest income is recognized using the effective interest method.

#### Dividends

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

#### Financial instruments

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

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

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from assets have expired or have been transferred and the Company has transferred substantially all risks and

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

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

a) Loans and receivables

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

b) Financial liabilities at amortized cost

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income (loss) and comprehensive income (loss).



## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

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

#### **Restricted cash**

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

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

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

#### **Environmental provision**

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

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

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

### **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:

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

In assessing the initial classification of an acquired property, the Company prepares a strengths-

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

- Timing of recognition of properties transferred from related parties

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

- Determining approach and frequency of external appraisals for investment property

Management uses judgment in its approach to determining fair values of investment property. The fair values of these properties are reviewed regularly by management with reference to independent property appraisals and market conditions existing at the reporting date. The Company selects

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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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 period. Actual results could differ from those estimates.

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

Determining the fair value of investment property involves significant estimates of the highest and best use of the property, discount rates, capitalization rates, market rental rates and growth rates, vacancy rates, inflation, structural allowances, lease terms and start dates, leasing costs, costs of environmental remediation requirements if any, and costs of pre-development, active development and construction activities, where applicable. The valuation inputs are derived from various sources of information, including third party sources 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 date of the consolidated statements of financial position and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

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

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

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

- Carrying value of the environmental provision

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

#### **4. New accounting standards adopted in 2014**

##### **IAS 32, Financial Instruments: Presentation (IAS 32)**

In December 2011, IAS 32 was amended to address inconsistencies in practice when applying the current criteria for offsetting financial instruments by clarifying the meaning of ‘currently has a legally enforceable right of set-off’, and clarifying that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. The Company’s adoption of IAS 32 did not result in a material impact to the consolidated financial statements.

##### **IAS 36, Impairment of Assets (IAS 36)**

This standard was amended to remove certain disclosures of the recoverable amount of cash generating units that had been included in IAS 36 by the issue of IFRS 13. These narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company’s adoption of IAS 36 did not result in a material impact to the consolidated financial statements.

**IFRIC<sup>1</sup> 21, Accounting for Levies Imposed by Governments (IFRIC 21)**

Accounting for levies imposed by governments IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company adopted this new interpretation effective January 1, 2014 and it was applied retrospectively. This new interpretation had no material impact on the amounts recognized in the Company's consolidated financial statements or note disclosures for the year ended December 31, 2014.

**5. Future accounting policy changes****IAS 1, Presentation of Financial Statements (IAS 1)**

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

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

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

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

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

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

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

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<sup>1</sup> IFRS Interpretations Committee.

## **Build Toronto Inc.**

### Notes to Consolidated Financial Statements

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

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

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

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

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

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

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3, Business Combinations. The amendment is effective for years beginning on or after January 1, 2016. The Company does not anticipate any material impact to the Company's financial position or results of operations from adoption of this standard.

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

In May 2014, the IASB issued IFRS 15 to give guidance on revenue recognition and disclosures of information for users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted.

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

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and

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### Notes to Consolidated Financial Statements

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- recognize revenue when (or as) the entity satisfies a performance obligation.

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

#### 6. Real estate inventory

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

	2014	2013
	\$	\$
Balance - Beginning of year	95,833,039	98,827,316
Acquisitions - transfers from the shareholder (a) (note 32)	15,626,686	2,660,000
Development costs (b)	6,988,814	3,073,678
Transfer from pre-acquisition costs (note 7)	1,060,468	39,156
Government grant (c)	148,750	(175,000)
Transfer from investment property (d) (note 11)	45,949,841	7,250,063
Transfer to related party (e)	(74,182)	(11,969,521)
Adjustment to environmental provision (note 18)	(297,446)	-
Costs written off to statement of income (loss) (f)	(11,370,906)	(3,872,653)
	<hr/>	<hr/>
Balance - End of year	153,865,064	95,833,039

- a) The fair value of the acquisitions was calculated using property-specific appraisals which were adjusted for the estimated costs of improvements and the estimated costs to sell the asset. The inputs used to calculate the fair value contain unobservable inputs and thus would be considered to be Level 3 inputs. The appraisals were prepared by third-party appraisers using market sales data for similar properties where possible. The costs to complete and selling costs adjustment were determined using engineering reports and the judgment of management, and represent 16.6% (2013 - 7.3%) of the appraised value.
- b) The development costs of \$6,988,814 (2013 - \$3,073,678) reduced by the recovery of \$74,182 (2013 - \$102,449) are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	2014	2013
	\$	\$
Development costs	6,988,814	3,073,678
Utilization of environmental provision (note 18)	109,791	-
Development costs recovered from related party	(74,182)	(102,449)
	<hr/>	<hr/>
	7,024,423	2,971,229

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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- c) In 2013, the Company successfully applied for a federally funded government assistance grant in the amount of \$175,000 to offset the cost of feasibility studies and environmental remediation work for an inventory property. The initial contribution of \$26,250 was received in May 2013 and the second and final contribution totalling \$148,750, was originally expected to be received in 2014. However, due to a change in strategy, the Company substantially scaled back on the development of the site and the remaining balance of the grant is no longer available, resulting in the reversal of the previously accrued amount in 2014.
- d) As at January 1, 2014, there was a transfer of \$45,949,841 (2013 - \$nil) from the investment property asset group to the real estate inventory group as a result of a change in intended use of the properties, now primarily to be developed and sold, aligned with the current strategic direction of the Company. In 2013, the transfer of \$7,250,063 was the result of a change in the allocation of land area based upon a change in future use as evidenced by the commencement of development and site planning.
- e) During 2013, by direction of the City, a property was transferred to a related party with whom the Company has entered into a service agreement. Pursuant to the agreement, the Company will receive reimbursement of certain costs incurred on and after August 1, 2013 and 20% of the net proceeds for assisting in the sale of the property. Costs which are not recoverable are transferred to the consolidated statements of income (loss) and comprehensive income (loss). During the year, development costs of \$74,182 (2013 - \$102,449) were recovered from the related party.

Breakdown of the transfer of property to the related party is as follows:

	2014 \$	2013 \$
Land value	-	(11,867,072)
Development costs recovered	(74,182)	(102,449)
	<u>(74,182)</u>	<u>(11,969,521)</u>

- f) Breakdown of costs written off to the consolidated statement of income (loss) and comprehensive income (loss) during the year is as follows:

	2014 \$	2013 \$
Cost of sales (note 22)	(11,302,053)	(996,098)
Project investigative costs (i) (note 28)	(68,853)	(407,270)
Revaluation of real estate inventory (ii)	-	(2,469,285)
	<u>(11,370,906)</u>	<u>(3,872,653)</u>



## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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- i) Included in the comparative was total cost of \$335,509 written off as a result of the transfer of the property to the related party mentioned in note (e) above.
- ii) At each reporting period, where necessary, management reviews the estimated sales value of each property, the estimated costs to complete the property, and the estimated selling costs to determine if the carrying value is higher than the estimated net realizable value. Where the carrying cost for a property exceeds the net realizable value, the asset value is reduced to estimated net realizable value and the difference is expensed.

In the year ended December 31, 2014, there were no write-down adjustments (2013 - \$2,469,285) in the land value to the statement of income (loss) and comprehensive income (loss). In 2013, the write-downs occurred due to a new restriction on the available square footage of an existing property imposed by the shareholder and the other property value was reduced due to a reduction in the available saleable land after site planning was completed.

#### 7. Pre-acquisition costs

	2014 \$	2013 \$
Balance - Beginning of year	2,471,926	1,319,884
Additions (a)	1,620,780	1,617,245
Transfer to real estate inventory (note 6)	(1,060,468)	(39,156)
Transfer to related party (a)	(420,466)	(136,196)
Costs written off to income statement (b)	(74,899)	(289,851)
	<hr/>	<hr/>
Balance - End of year	2,536,873	2,471,926

- a) During the year ended December 31, 2014, the Company capitalized \$1,620,780 (2013 - \$1,617,245) of investigative and development costs related to properties that have not yet been acquired by the Company.

The additions reduced by the transfer to the related party amount of \$420,466 (2013 - \$136,196), are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	2014 \$	2013 \$
Additions	1,620,780	1,617,245
Costs recovered from related party	(420,466)	(136,196)
	<hr/>	<hr/>
	1,200,314	1,481,049

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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- b) During the year ended December 31, 2014, the Company wrote off \$74,899 (2013 - \$289,851) to the consolidated statement of income (loss) and comprehensive income (loss).

	2014	2013
	\$	\$
Cost of sales (note 22)	-	(22,856)
Project investigative costs (note 28)	(74,899)	(266,995)
	<u>(74,899)</u>	<u>(289,851)</u>

## 8. Due from related parties

	2014	2013
	\$	\$
Due from City (a) (note 32)	1,554,473	4,688,371
Due from Toronto Port Lands Company (TPLC) (note 32)	586,618	620,218
Due from Waterfront Secretariat (b) (note 32)	9,683	-
	<u>2,150,774</u>	<u>5,308,589</u>

- a) During the year ended December 31, 2014, the Company received the Brownfield Remediation Tax grant of \$1,490,625 under the Innovation and Technology Financial Incentives Program for 2011 to 2013 which was outstanding at December 2013. The City also released \$1.5 million of the certified cheque of \$3.0 million (2013 - \$3.0 million) held by the City in lieu of a servicing letter of credit and there was a further reduction by release of an additional \$900,000 to \$600,000 in the early part of 2015. The remaining balance represents a new deposit of \$30,000 (2013 - \$nil) held by the City in lieu of a letter of credit for another site and invoices and chargebacks of \$71,958 (2013 - \$307,984) billed to the City reduced by amounts owed to the City of \$47,485 (2013 - \$110,238) that remain outstanding in 2014.
- b) The balance as at December 31, 2014 represents amounts due to the Company related to a project of which the Company is an agent for the City, funded through Waterfront Secretariat.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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#### 9. Amounts receivable - current

	2014 \$	2013 \$
Deferred rent and loan interest from PT Studios Inc. (PTSI) (note 15(b))	102,820	123,804
Rent receivable (a)	211,405	153,312
Purchase price adjustment (b)	1,948,208	1,948,208
HST refund	181,771	136,775
Interest	150,284	142,818
Government grant (note 6(c))	-	148,750
Insurance recovery	29,998	102,966
Deferred income (c)	200,000	193,389
Other (d)	148,231	13,809
	<u>2,972,717</u>	<u>2,963,831</u>

- a) Amount relates to licence fees, common area maintenance and property taxes recoveries from various tenants.
- b) Amount relates to additional profit participation from sales of properties that took place in 2010 and 2011, of which \$142,198 related to the property sold in 2011 was received in January 2015.
- c) Interest free deferral of proceeds of \$200,000 related to a secured parcel of land reserved by the City until completion of the installation of services at which point it will be released to the purchaser and the proceeds will be paid. The discounted value has been fully written back up (2013 - \$193,389) and is expected to be received before the end of 2015.
- d) Relates to servicing cost sharing recoveries of \$111,623, utility recoveries related to a property which was sold during the year of \$6,940, and legal fees due after a dispute resolution of \$29,668.

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

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**10. Cash and cash equivalents**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents		
GICs - various maturities within one year but redeemable after 30 days of issue without penalty	26,234,375	27,314,030
Short-term deposits	4,410,000	2,500,000
Cash (a)	42,167,702	1,260,943
	<u>72,812,077</u>	<u>31,074,973</u>

- a) Included in the balance is a funded amount of \$67,142 restricted for use for a project that the Company acts as an agent for Waterfront Secretariat, a division of the City responsible for the revitalization of Toronto's waterfront.

**11. Investment property**

December 31, 2014

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

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

#### December 31, 2013

Expected use of investment property	December 31, 2013				
	Total \$	Office \$	Retail \$	Mixed use \$	Film studio \$
Balance - Beginning of year	60,751,719	8,300,000	16,488,094	20,463,625	15,500,000
Subsequent expenditure on investment properties	1,940,081	239,377	1,607,243	93,461	-
Transfer to real estate inventory (note 6)	(7,250,063)	-	-	(7,250,063)	-
Costs written off to project investigative costs (note 28)	(102,093)	-	(102,093)	-	-
Net change in fair value	5,010,197	-	1,040,894	5,069,303	(1,100,000)
Balance - End of year	60,349,841	8,539,377	19,034,138	18,376,326	14,400,000

The film studio land, as an asset of BTHOI, is included in the security for the loan payable to a government agency (note 19(a)).

Investment property measured at fair value in the consolidated statements of financial position is categorized by level according to the significance of the inputs used to calculate their fair values. The Company uses significant unobservable inputs to adjust the fair values of its investment properties and accordingly the fair values are classified as Level 3 fair values. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. As all investment properties, except the land and land improvements leased to the film studio were transferred to inventory effective January 1, 2014, there were no subsequent transfers between Level 3 and either Level 1 or Level 2 fair value measurements during the year.

Prior to January 1, 2014, the Company's investment properties were comprised almost entirely of land under development. The exception is the film studio land and land improvements which are leased over a long term. For the current year, the remaining investment property, is the land and land improvements leased to the film studio. The fair value of the film studio land and land improvements is estimated using discounted cash flows over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation.

Fair values for investment properties which are land under development are calculated on a specific property basis using an adjusted direct comparison method. The fair values are examined using sales data for similar properties where possible or commissioned property-specific appraisals prepared by third parties and assuming the highest and best use basis (HABU), adjusted for the conditions of transfer imposed by the shareholder, which all market participants would be expected to comply with. The appraised values are adjusted by the estimated costs to complete the property to achieve the highest and best use. Management uses judgment and current engineering reports where possible to estimate the costs to complete.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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#### Valuation Inputs

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Property-specific appraisal reports	Prepared by third party qualified professionals using information provided by management and market data for similar properties.
Market sales price per acre	Based on actual sales data, where available, for similar property.
Estimated costs to complete	Management uses judgment and professional reports to estimate the costs to bring the property to its completed contemplated highest and best use.
Revenue projections for land lease	Management uses judgment in estimating the likely steps in land rent at the film studio based upon estimated future bond rates.
Discount rate	Management uses judgment about discount rates for the discounted cash flow calculation.

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Significant inputs in Level 3 valuations are as follows:

December 31, 2014 Inputs			
	Observable Inputs	Unobservable Inputs	
Class	Market sales comparatives (using 2014 appraisals)	Estimate of costs per acre to achieve HABU	Discounted cash flow
Film studio land and improvements	Future lease flows as per contract (99-year period used)		Discounted lease flows using discount rate of 5.5%

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## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

December 31, 2013 Inputs			
	Observable Inputs	Unobservable Inputs	
Class	Market sales comparatives (using 2013 appraisals)	Estimate of costs per acre to achieve HABU	Discounted cash flow
Land for office	\$4,295,000 per acre	Cost of \$25,000 per acre	
Land for retail	\$1,900,000 to \$2,200,000 per acre weighted average \$1,998,070 per acre	\$64,324 to \$792,331 per acre weighted average adjustment \$469,270 per acre	
Land for mixed use	\$2,200,000 per acre	\$410,863 per acre	
Film studio land and improvements	Future lease flows as per contract (99-year period used)		Discounted lease flows using discount rate of 5.5%

Market sales values are sensitive to changes in the market, economy and specific property use. Restrictions added are assumed to affect all market participants and be reflected in the pricing accordingly. The market price is dependent on the final use of the property. Further adjustments for costs to complete relate to the estimated costs to bring the properties to their appraised end use and are supported by engineering reports where available and management expertise. The estimated costs to complete are sensitive to the length of time to completion, fluctuations in the price of materials and labour and potential unknown issues.

Inputs used to estimate the value of the film studio are discounted lease flows. The discount rate used was 5.5 %. If the discount rate were to increase by 25 basis points (bps), the value of investment property would decrease from \$14.65 million to \$13.6 million. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from \$14.65 million to \$15.7 million.

#### Valuation processes

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

At each financial year end date, the Company obtains external valuations for the majority of the investment property portfolio. The external valuations utilized are prepared by independent professionally qualified valuers who hold a recognized relevant professional qualification and have recent experience in the location and category of the respective property. For properties subject to an independent valuation report, the

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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valuations team verifies all major inputs to the valuation and reviews the results with the independent valuator.

In 2014, the Company utilized an external valuation prepared at December 31, 2014 for the film studio investment property.

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

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

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

The Company has classified its 20% interest in Toronto Waterfront Studios Inc. (TWSI) and Toronto Waterfront Studios Development Inc. (TWSDI) as investments in associates as it has significant influence but does not have control or joint control over their operations.

The Company, through BTHOI, holds 20% equity interests in two associates, TWSI and TWSDI. The investments in the associates are accounted for using the equity method.

	TWSDI		TWSI	
	2014	2013	2014	2013
	\$	\$	\$	\$
Balance - Beginning of year	312,063	43,229	1,516,917	1,955,218
Advances	-	310,000	336,243	216,243
Transfer of advances (a)	(310,000)	-	310,000	-
Share of net loss	(32,796)	(41,166)	(141,569)	(654,544)
Balance - End of year	(30,733)	312,063	2,021,591	1,516,917

- a) During the year ended December 31, 2014, advances of \$310,000 were transferred from TWSDI to TWSI.



## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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For the years ended December 31, 2014 and December 31, 2013, TWSI and TWSDI reported the following financial positions and results from operations:

	TWSDI		TWSI	
	2014	2013	2014	2013
	\$	\$	\$	\$
Current assets	20,897	19,228	3,535,607	2,432,302
Non-current assets	5,299,310	5,263,972	48,316,177	49,197,751
Current liabilities	5,473,866	5,272,884	6,245,614	6,792,171
Non-current liabilities	-	-	45,758,612	44,282,475
Revenue	-	-	9,518,983	6,821,708
Net loss from continuing operations	(163,975)	(205,831)	(707,849)	(3,272,717)
Net loss and total comprehensive income loss	(163,975)	(205,831)	(707,849)	(3,272,717)

The Company's estimated share of losses from TWSI and TWSDI for 2014 at its 20% share is a loss of \$174,365 (2013 - loss of \$695,710).

The ground lease for the film studio land with PTSI is for a term of 99 years and was executed on August 25, 2005. On June 22, 2009, PTSI was granted a deferral of 50% of the basic rent for a term of five years ended in June 2014. Commencing on June 22, 2014, deferred rent is to be repaid based on blended monthly payments of interest and principal over a 60-month period at a rate of 5.6%. Annual rent adjustments start June 22, 2027 and every subsequent 20-year anniversary thereafter. No dividends can be paid from PTSI unless and until any and all amounts due to the landlord have been paid. Rent until the next annual rent adjustment date is \$517,115 per annum.

The equity investment amount includes \$2,002,486 (2013 - \$1,666,243) advanced to TWSI and TWSDI. The rate of interest and the repayment for this advance is subject to approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the year.

### 13. Joint arrangements

#### Investment in joint venture

On December 13, 2012, BTHHI entered into a general partnership (Partnership) agreement with a residential developer by selling 100% of its ownership of the following property to a nominee company for the Partnership in return for a VTB mortgage of \$14.0 million and a 35% ownership interest in the Partnership. The VTB mortgage was repaid on July 11, 2013.

The Company has classified its 35% interest in the Partnership as a joint venture. In doing so, the Company considered the terms and conditions of the Partnership agreement and the purpose and design of the joint arrangement and accounts for its interest using the equity accounting method. The purpose of the joint

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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venture is to develop and construct a condominium project on the site, and distribute the returns to the partners once these are sold.

Pursuant to the Partnership agreement, the pre-development expenses not exceeding \$110,000 incurred by the Company plus the reasonable legal expenses incurred in connection with the set-up of and the acquisition of assets by the Partnership are considered as capital contribution. These costs, expensed in prior years, came to a total of \$148,713 and were recorded as a reduction of the cost of sales and an increase in the investment in joint venture in the financial statements in 2013. In 2014, legal fees of \$8,945 were capitalized to the investment.

Name	Principal activity	Location	Ownership interest (%)	
			2014	2013
120-130 Harbour Street Partnership	Inventory	Toronto, Ontario	35	35

For the years ended December 31, 2014 and December 31, 2013, the Partnership reported the following financial positions and results from operations:

	2014	2013
	\$	\$
Cash and cash equivalents	47,048,466	46,450,470
Current assets	711,154	223,909
Non-current assets	68,699,896	34,838,036
Total current liabilities	13,675,926	2,097,216
Non-current liabilities	60,440,087	44,894,246
Loss from continuing operations	3,877,450	1,985,372
Net loss and total comprehensive loss	3,877,450	1,985,372

Losses are allocated to the other partner of the Partnership until the first advance date of construction financing. Subsequent to the first advance date of construction financing, losses are allocated in proportion to the aggregate capital contributions of the partners. Income is allocated first to the other partner of the Partnership to the extent of previously allocated losses prior to the first advance date of construction financing. As at December 31, 2014, the cumulative losses of \$9,867,197 (2013 - \$5,989,747) have been allocated to the other partner of the Partnership.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Investment in joint operation

The Company's interest in a co-owned property, which is accounted for by recognizing the Company's share of the assets, liabilities, revenues and expenses on a line-by-line basis, is as follows.

Name	Principal activity	Location	Ownership interest (%)	
			2014	2013
Ordnance/ Strachan	Inventory	Toronto, Ontario	50	50

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

**Build Toronto Inc.**

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

	Leasehold improvements \$	Furniture and fixtures, and software licence \$	Computer equipment \$ (a)	Website development \$	Total \$
Balance - December 31, 2012					
Cost	831,508	506,266	172,069	44,461	1,554,304
Accumulated depreciation and amortization	(224,663)	(265,866)	(113,863)	(13,971)	(618,363)
	<u>606,845</u>	<u>240,400</u>	<u>58,206</u>	<u>30,490</u>	<u>935,941</u>
Opening net book value - January 1, 2013	606,845	240,400	58,206	30,490	935,941
Additions	-	-	28,279	2,880	31,159
Disposals	-	-	(7,050)	-	(7,050)
Add: Adjustment for depreciation and amortization related to disposals	-	-	2,940	-	2,940
Less: Depreciation and amortization	(80,856)	(101,244)	(30,977)	(14,276)	(227,353)
Derecognition of assets	-	-	-	(19,094)	(19,094)
Ending net book value - December 31, 2013	<u>525,989</u>	<u>139,156</u>	<u>51,398</u>	<u>-</u>	<u>716,543</u>
Opening net book value - January 1, 2014	525,989	139,156	51,398	-	716,543
Additions	-	33,900	2,761	-	36,661
Less: Depreciation and amortization	(80,856)	(109,722)	(27,359)	-	(217,937)
Ending net book value – December 31, 2014	<u>445,133</u>	<u>63,334</u>	<u>26,800</u>	<u>-</u>	<u>535,267</u>
Balance – December 31, 2014					
Cost	831,508	540,166	76,842	-	1,448,516
Accumulated depreciation and amortization	(386,375)	(476,832)	(50,042)	-	(913,249)
	<u>445,133</u>	<u>63,334</u>	<u>26,800</u>	<u>-</u>	<u>535,267</u>

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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- a) During the year ended December 31, 2014, fully amortized computer equipment totalling \$119,217 (2013 - \$nil) has been removed from the Company's books.

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

	2014 \$	2013 \$
Loan interest due from TWSI (a)	288,903	259,890
Deferred rent (b)	1,141,961	1,046,885
	<hr/> 1,430,864	<hr/> 1,306,775

- a) The balance represents the present value of deferred loan interest of \$288,903 due in 2039 (2013 - \$259,890).
- b) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and PTSI (as tenant), PTSI was given a deferral of 50% of basic rent payable on an interest free basis for a period of five years, starting June 22, 2009. Commencing on June 22, 2014, deferred rent is being repaid based on blended monthly payments of interest and principal over a five-year period at a rate of 5.6%. Annual rent adjustments start on June 22, 2027 and every subsequent 20-year anniversary thereafter.

#### 16. Loans receivable

	2014 \$	2013 \$
Loan receivable - PTSI (a)	33,403,778	33,403,778
Deferred payment loan - TWSI (b)	2,758,988	3,776,461
Vendor-take-back mortgages (c)	1,589,778	23,184,261
	<hr/> 37,752,544	<hr/> 60,364,500
Total	37,752,544	60,364,500
Less: Current portion	36,162,766	25,469,452
	<hr/> 1,589,778	<hr/> 34,895,048
Non-current loans receivable	1,589,778	34,895,048

- a) Starting in December 2009, the Company through a subsidiary began a process to assist TWSI in restructuring its debt. After paying a discounted premium of \$2,299,752, a loan payable with a balance of \$26,921,801, interest rate of 5.61% and due date of September 2018 was assumed by the Company as lender.

The Company utilized two consecutive bridge facilities with a major bank and a government agency during negotiations which were finalized on March 18, 2011. The new facility is for a maximum of \$34.5 million, which could be accessed with draw requests until December 23, 2014. The Company accessed the facility in June 2013 and drew an additional \$4,369,184 of which \$4,366,174 has been advanced to PTSI. The interest rate as at December 31, 2014 of 2.0542% (2013 - 1.99%) is reset monthly at the

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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government agency's average monthly cost of funds and the loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.

The current agreement provides for conversion of the interest-only facility to a 25-year amortizable debenture on the maturity date of December 23, 2014 or earlier. The conversion has not occurred to-date and the Company is currently in the process of negotiating the new terms with the government agency. The loan will continue as an interest-only facility until the conversion to the amortizable debenture and has been classified as a current liability in the consolidated statement of financial position as the repayment terms are under negotiation.

The Company agreed to loan the interest income from the interest rate differential, interest free over the term of the final loan. As such, \$29,014 in interest income that would otherwise have been earned in the year ended December 31, 2014 (2013 - \$29,014) will be recognized over the remaining term of the loan receivable. The Company has recorded a receivable of \$288,903 as at December 31, 2014 (2013 - \$259,890), which represents the present value of the interest income receivable.

As a condition of the loan with the government agency, the Company has agreed to maintain additional asset value coverage of \$30.5 million in excess of the \$4.0 million in guarantees provided by the other shareholders of TWSI. The Company charges a guarantee fee to TWSI of 1% of 80% of the shortfall (\$24.4 million). 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 (note 25).

- b) As part of a trailing obligation upon restructuring and investing in TWSI in 2009, on June 15, 2011, the Company provided a loan in the amount of \$3,660,917 to TWSI and set up a loan payable with identical terms as with TPLC described in note 19. The loan originally bore interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest paid on June 23, 2012, and maturity on June 23, 2014.

On June 24, 2014, an amended agreement was signed with the maturity date of the loan extended to June 24, 2015. At the same time, TWSI repaid principal of \$1 million and accepted a 1% increase in interest rate to 7% per annum. TWSI also repaid accrued interest of \$219,655 (2013 - \$219,340) on the loan during the year.

The loan is secured by a pledge of 1,000 common shares of PTSI. The balance includes interest of \$98,072 (2013 - \$115,544).

- c) VTB mortgages were issued in connection with land sale transactions in 2012 with combined proceeds of \$57,106,000. During the year, one of the VTB mortgages was fully received and the remaining VTB mortgage, secured on the respective land parcel, has interest rate of 6.5% with maturity date on November 16, 2016. The balance includes accrued interest of \$202,278 (2013 - \$1,146,761).

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

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**17. Amounts payable and other liabilities**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Trade payables - general	700,747	793,461
Accruals (a)	2,830,401	2,855,451
	<hr/>	<hr/>
Total payables and accrued liabilities	3,531,148	3,648,912
Deferred lease inducement	300,745	355,417
Deferred lease escalations	116,201	111,641
Rent received in advance	-	203,444
Guarantee fee received in advance	6,436	12,866
Construction holdbacks	68,922	-
	<hr/>	<hr/>
Total amounts payable and other liabilities	4,023,452	4,332,280

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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#### 18. Environmental provision

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

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

	2014 \$	2013 \$
Balance - Beginning of year	17,498,020	26,845,117
Additions (note 32)	334,050	100,000
Utilized in year (a)	(909,791)	-
Adjustment to real estate inventory (b) (note 6)	(297,446)	-
Adjustment on derecognition (c)	-	(8,021,123)
Revaluation adjustment (d)	-	(2,253,975)
Accretion (d)	1,159,908	828,001
Costs written off to statement of income (loss) and comprehensive income (loss) on sale of property	(459,643)	-
Total - End of year	17,325,098	17,498,020
Less: Current portion	(5,491,248)	(900,000)
Non-current environmental provision	<u>11,833,850</u>	<u>16,598,020</u>

- a) Amount included development costs of \$109,791 (2013 - \$nil) previously capitalized in the real estate inventory (note 6(b)).
- b) During the year ended December 31, 2014, the provision was reduced by \$664,435 (2013 - \$nil) for the new discount rate and increased by \$366,989 (2013 - \$nil) due to change in timing of the remediation costs. The downward adjustment of \$297,446 (2013 - \$nil) to the provision resulted in a corresponding upward adjustment in the real estate inventory (note 6).
- c) In 2013, the related provision was reduced on the property that was derecognized from the Company's real estate inventory of \$8,021,123 (note 32).
- d) The Company revalued the environmental provision for the years ended December 31, 2014 and December 31, 2013 to the carrying value of the provision with a discount rate which reflects the shareholder's WACC of 5.9% (2013 - 5.1%). These present value adjustments were necessary due to changing market conditions and timing of the remediation process. During the year ended December 31, 2014, there was no revaluation adjustment to environmental provision (2013 - \$2,253,975) and an amount of \$1,159,908 (2013 - \$828,001) was recognized as financing cost (note 30) in the consolidated net income (loss) and comprehensive income (loss).



## Build Toronto Inc.

### Notes to Consolidated Financial Statements

December 31, 2014

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#### 19. Debt

	2014 \$	2013 \$
Long-term loan payable - government agency (a)	33,406,788	33,406,788
Deferred loan payable to TPLC (b)	2,758,988	3,776,461
	<hr/>	<hr/>
Total	36,165,776	37,183,249
Less: Current portion	(36,165,776)	(3,776,461)
	<hr/>	<hr/>
Debt	-	33,406,788

- a) In 2011, the Company assisted TWSI by restructuring its debt to obtain a new long-term facility with a government agency. The new facility is interest only within the first three years of the term and is for a maximum of \$34.5 million of which \$29.0 million was advanced on March 18, 2011. The Company accessed the facility in June 2013 and drew an additional amount of \$4,369,184 and after deducting legal fees, the remaining balance of \$4,366,174 was advanced to PTSI which is the management company for TWSI. A remaining amount of \$1,093,753 was available until December 23, 2014 when the facility matured and was to be converted to a blended payment debt with the ending principal amortized over 25 years.

The conversion did not take place and the existing facility has been extended on an interest-only basis until the fixed-rate facility is arranged with the government agency and has been classified as a current asset in the consolidated statement of financial position as the repayment terms are under negotiation. The Company's ability to fix the interest rate on the new facility within the first three years of the term has expired and is now reset monthly to the government agency's borrowing rate, currently at 2.0542%. The loan is secured by the assets and corporate guarantees of BTHOI, the future leasehold charge related to the land lease on additional expansion lands to be developed and the Company.

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

On June 24, 2014, an amended agreement was signed with the maturity date of the loan extended to June 24, 2015. At the same time that the amendment was signed, the Company repaid principal of \$1 million and accepted a 1% increase in interest rate to 7% per annum. The Company also paid accrued interest of \$219,655 (2013 - \$219,340) on the loan during the year.

The loan is secured by a pledge of common shares of PTSI. The balance includes interest of \$98,072 (2013 - \$115,544).

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### 20. Shareholder's equity

- a) Common share - As at December 31, 2014, one (2013 - one) common share is authorized, issued and outstanding.
- b) Dividends - There was no dividend declared and paid during the year ended December 31, 2014 (2013 - \$10 million).

#### 21. Sales

The Company had the following sales during the year:

	2014 \$	2013 \$
Real estate inventory (a)	33,128,798	2,254,698

- a) During the year ended December 31, 2014, the Company sold two real estate inventory properties for cash proceeds of \$28,600,000 (2013 - \$nil). In addition, the Company received additional profit participation of \$4,528,798 (2013 - \$2,254,698) from the sale of properties that took place in September 2011 and August 2012. The comparative sale revenue relates to additional profit participation from the sale of property that took place in 2010.

#### 22. Cost of sales

The cost of sales is comprised as follows:

	2014 \$	2013 \$
Real estate inventory cost of sales (note 6(f))	11,302,053	996,098
Pre-acquisition costs write-offs (note 7(b))	-	22,856
Environmental provision relating to sales (note 18)	(459,643)	-
Commission and legal fees	354,000	(47,918)
Total cost of sales of real estate inventory	11,196,410	971,036

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### 23. Rental revenue

Rental revenue is comprised as follows:

	2014 \$	2013 \$
Leases	517,114	517,114
Licences	453,435	243,679
Recoverable operating costs and property taxes	2,229,278	1,234,995
	<hr/>	<hr/>
Total rental revenue	3,199,827	1,995,788

#### 24. Property operating costs

Property operating costs are comprised as follows:

	2014 \$	2013 \$
Utilities, repairs and maintenance and security	136,834	296,569
Insurance	7,350	2,972
Property taxes	2,249,762	1,427,419
IMIT grant (a)	-	(496,875)
Bad debt expense	60,318	-
	<hr/>	<hr/>
Total operating costs	2,454,264	1,230,085

- a) The comparative represents an amount accrued under the Imagination, Manufacturing, Innovation, Technology Property Tax Incentive Program/Tax Increment Equivalent Grants/Industrial & Office Investment Grants Program of the City which provides grants for property and building improvements to stimulate industrial and office investment in selected industrial or commercial areas.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### 25. Guarantee fee

	2014 \$	2013 \$
Guarantee fee	36,930	73,871

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

#### 26. Interest income

	2014 \$	2013 \$
Investments	333,961	327,938
Mortgage receivable interest	1,357,257	1,494,041
Loan interest	903,600	843,154
Bank interest income	24,583	79,352
Other	41,859	21,899
Total interest income	2,661,260	2,766,384
Deduct:		
Amortization of interest differential loan discount	(29,014)	(29,014)
Amortization of escrowed fund discount	-	(14,830)
Amortization of deferred revenue discount	(6,611)	(6,611)
Amortization of VTB mortgage receivable discount	-	(120,822)
Total amortization of non-cash interest income	(35,625)	(171,277)
Change in accrued loans receivable interest	961,553	(874,673)
Change in GIC and short-term deposits interest accrued	(7,466)	(56,342)
Cash interest received	3,579,722	1,664,092

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

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

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**27. General and administrative expenses**

General and administrative costs, net of allocations to TPLC (note 32), consist of the following:

	<b>2014</b>		
	<b>Gross</b>	<b>Allocation</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits (a)	5,498,442	(5,950)	5,492,492
Restructuring costs	1,231,944	-	1,231,944
Office services	397,375	375	397,750
Office occupancy	667,611	-	667,611
Professional fees	308,221	-	308,221
Marketing and promotion	120,808	-	120,808
Total general and administrative expenses	<u>8,224,401</u>	<u>(5,575)</u>	<u>8,218,826</u>
			<b>2013</b>
	<b>Gross</b>	<b>Allocation</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits	6,759,605	(32,928)	6,726,677
Restructuring costs	-	-	-
Office services	424,411	(5,700)	418,711
Office occupancy	658,532	-	658,532
Professional fees	393,639	-	393,639
Marketing and promotion	115,972	-	115,972
Total general and administrative expenses	<u>8,352,159</u>	<u>(38,628)</u>	<u>8,313,531</u>

- a) Included in the salaries and benefits in 2014 is a restructuring cost of \$1,231,944 (2013 - \$nil) as a result of the implementation of restructuring plan to align the Company with the current market conditions.

**Build Toronto Inc.**

## Notes to Consolidated Financial Statements

December 31, 2014

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**28. Project investigative costs**

	2014 \$	2013 \$
Studies and surveys	17,942	2,981
Real estate inventory write-offs (note 6(f))	68,853	407,270
Pre-acquisition costs write-offs (note 7(b))	74,899	266,995
Investment property write-offs (note 11)	-	102,093
Other (a)	-	69,750
	<hr/>	<hr/>
Total project investigative costs	161,694	849,089

- a) The comparative other project investigative costs of \$69,000 were costs incurred on the valuation of properties in 2013.

**29. Finance costs**

	2014 \$	2013 \$
Interest expense incurred on debt	874,647	844,892
Other	1,513	1,480
	<hr/>	<hr/>
Total finance costs	876,160	846,372
Add (deduct):		
Change in debt accrued interest	15,652	(316)
	<hr/>	<hr/>
Cash interest paid	891,812	846,056

**30. Accretion of environmental provision**

	2014 \$	2013 \$
Accretion of environmental provision	1,159,908	828,001

Environmental provision was revalued in 2014 and 2013 for changes in estimates of future remediation requirements, timing and related costs using the shareholder's WACC of 5.9% (2013 -5.1%). This revaluation adjustment is amortized to interest expense over the expected life of the remediation (note 18(d)).

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### 31. Supplemental cash flow information

	2014 \$	2013 \$
Decrease (increase) in due from related parties	3,157,815	(481,826)
Decrease (increase) in amounts receivable	161,206	(667,068)
Increase (decrease) in prepaid expenses	(123,678)	76,749
Decrease in loans receivable	21,594,483	13,875,642
Decrease in amounts payable and other liabilities	(358,939)	(1,265,020)
Decrease (increase) in environmental provision	(800,000)	64,949
	<hr/>	<hr/>
Changes in non-cash working capital	23,630,887	11,603,426

#### Supplementary information

Interest received during the year (note 26)	3,579,722	1,664,092
Interest paid during the year (note 29)	891,812	846,056
Accrued investment property development costs	-	112,300

#### 32. 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
Invest Toronto Inc. (ITI)	same parent
Toronto Transit Commission (TTC)	same parent
Toronto Parking Authority (TPA)	same parent, tenant
Toronto Community Housing Corporation	same parent
Toronto Police Service	same parent
Toronto Public Library	same parent
Toronto Waterfront Studios Inc. (TWSI)	investee, tenant, debtor
Toronto Waterfront Studios Development Inc. (TWSDI)	debtor, investee
Key management and directors	key management
Ontario Municipal Employees Retirement System (OMERS)	post-employment benefit plan

#### The City

During the year ended December 31, 2014, the shareholder transferred a property to the Company which has a fair value of \$15,626,686 (note 6) (2013 - \$2,660,000) with a corresponding environmental provision of \$334,050 (note 18) (2013 - \$100,000). The transfer was recorded as an increase of contributed surplus of \$15,292,636 (2013 - \$2,560,000). In addition, the environmental provision of \$100,000 recorded in 2013

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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was reversed as it was determined that the provision would no longer be required, resulting in a corresponding increase to comprehensive income (loss) in the year.

During 2013, the Company derecognized a property that was transferred from the City in 2011, which has a carrying value of \$11,867,072 (note 6). The corresponding adjustments include the reversal of the drawdown of \$64,949 in 2012 in environmental provision, and reductions of the environmental provision of \$8,021,123 (note 18). The derecognition was recorded as a decrease of contributed surplus of \$3,781,000. This was offset by an increase in the contributed surplus of \$121,436 as a result of the additional proceeds transferred to the Company by TPLC (part (a) below).

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

	2014	2013
	\$	\$
Development costs	627,336	447,757
Due from related parties (a) (note 8)	1,564,156	4,688,371
Amounts receivable - current	-	35,531
Prepaid expenses	29,599	-
Amounts payable and other liabilities	443,761	-

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

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

	2014	2013
	\$	\$
Rental income and recoveries	-	49,074
Cost of sales	(1,500)	-
Utilities, repairs and maintenance and security	(50,303)	(17,469)
Property taxes (note 24)	(2,249,762)	(1,427,419)
IMIT grant (note 24)	-	496,875
General and administrative expenses	(3,080)	(159,788)
Project investigative costs	-	(2,926)



## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Toronto Port Lands Company

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

	2014	2013
	\$	\$
Due from related parties (a) (note 8)	586,618	620,218
Debt - current (b) (note 19)	2,758,988	3,776,461

- a) Included in the balance is an amount of \$985,617 (2013 - \$899,974) which relates to an additional residual profit sharing proceeds due for residential sale which closed in 2012. An additional amount of \$85,643 (2013 - \$121,436) was recorded by the Company.

The Company also provided consulting and property management service on a property for TPLC pursuant to an agreement entered into during the year. The Company negotiated with a potential purchaser on the property on behalf of TPLC but the sale did not materialize and the non-refundable deposit paid by the potential purchaser and operating costs related to the property were also included in the balance.

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

- b) During the year, the Company paid down principal of \$1 million (2013 - \$nil) and loan interest of \$219,655 (2013 - \$219,339). In addition, the Company expensed deferred loan interest of \$202,182 (2013 - \$219,655) in comprehensive income (loss).

The Company had transactions with TPLC in its ordinary course of business throughout the year, including an arrangement whereby certain office services and staffing costs were shared with TPLC. The allocation of these costs, calculated on a time spent basis, is highlighted in note 27 and this arrangement ended during the year. Expenses that passed through the consolidated statement of income (loss) and comprehensive income (loss) were as follows:

	2014	2013
	\$	\$
General and administrative expenses (note 27)	5,575	38,628
Finance costs	202,182	219,655

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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#### Toronto Transit Commission

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

	2014 \$	2013 \$
Pre-acquisition costs	10,000	10,000

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

	2014 \$	2013 \$
Recoverable property taxes	963,224	-

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

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

	2014 \$	2013 \$
Amounts receivable - current (note 9)	102,820	123,804
Loans receivable - current (note 16)	36,162,766	3,776,461
Investment in equity accounted investments (a) (note 12)	1,990,858	1,828,980
Amounts receivable - non-current (note 15)	1,430,864	1,306,775
Loans receivable - non-current (note 16)	-	33,403,778
Amounts payable and other liabilities (note 17)	6,436	12,866

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

Land, land improvements, shares and a shareholder loan receivable were transferred from TPLC in 2009. At December 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. The Company's debt as described in note 19 is as a result of the restructuring and assistance provided by the Company to TWSI.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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

	2014	2013
	\$	\$
Rental revenue and recoverable property taxes	1,582,522	1,581,489
Share of net loss from equity from equity accounted investments (note 12)	(174,365)	(695,710)
Guarantee fee (note 25)	36,930	73,871
Interest income	987,297	872,168

#### Key management and director compensation

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

	2014	2013
	\$	\$
Salaries and other short-term employee benefits and termination benefits	1,388,300	1,727,878
Directors' fees	138,250	119,057
	<hr/>	<hr/>
	1,526,550	1,846,935
	<hr/>	<hr/>

#### Post-employment benefit plan

The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of its employees. The current level of participation in the plan is 94% (2013 - 94%). The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entities participating in the plan and therefore the Company does not recognize any share of the OMERS pension surplus or deficit. The Company's current service contributions to the OMERS pension plan for the year ended December 31, 2014, which are expensed, totaled \$460,919 (2013 - \$463,946) and are included in salaries and employee benefits expense in the consolidated statements of income (loss) and comprehensive income (loss).

The Company's liability related to the plan is not greater than the current annual contribution amounts due. The expected contributions to the plan for 2015 are estimated to be \$498,877.

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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### 33. Commitments and contingencies

#### Operating Leases

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

	\$
2015	296,625
2016	310,750
2017	310,750
2018	310,750
2019	310,750
Thereafter	<u>155,375</u>
	<u>1,695,000</u>

During the year ended December 31, 2014, the Company paid \$282,500 (2013 - \$282,500) in minimum lease payments with respect to the lease of the office premise, and operating lease payments of \$17,629 (2013 - \$16,000) for office equipment, which have been included in income (loss) for the year.

#### Investment in TWSI and TWSDI

From time to time, BTHOI receives cash funding calls from TWSI and TWSDI for the construction of film studios and office premises, which it is obligated to fund, at an amount equivalent to 20% of its equity ownership of the cash requirements. For the year ended December 31, 2014, BTHOI funded \$336,243 (2013 - \$216,243) to TWSI and made no funding (2013 - \$310,000) to TWSDI. The Company's future commitments are determined through ongoing negotiations with the investees and investors. TWSDI substantially completed expanding its facility in September 2013 and the Company does not anticipate any additional funding requirement toward the project.

BTHOI is contingently liable to fund its 20% share of a provision to purchase 19.85% of the shares of one of the other investors (the ROI Put Option). The ROI Put Option is only exercisable if the enterprise value of TWSI as determined by an independent valuator is less than \$47.5 million as calculated on June 24, 2016. As at December 31, 2014, BTHOI's share of the provision was \$136,243 and the amount was paid on February 4, 2015.

#### Investment in joint venture

The Company is committed under the Partnership agreement to fund capital contributions. Based upon current budgeted cash requirements, an estimated total amount of \$10,750,000 is expected to be funded by the Company in 2015, and cash calls for a total of \$3,799,000 have been paid to-date.

#### Investment in joint operation

On April 25, 2012, the Company entered into a joint arrangement agreement with a third-party developer to develop a site that has existing tenants. Pursuant to the agreement, the Company is required to fund the

## Build Toronto Inc.

### Notes to Consolidated Financial Statements

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relocation of one of the tenants up to a maximum of \$3.75 million. During the year ended December 31, 2014, the Company paid \$1,499,065 (2013 - \$891,474) which was capitalized to inventory, and to-date, the Company has funded \$2,345,969 (2013 - \$753,101) of the total amount. The Company is not in a position to accurately estimate the relocation funding for the future years.

Pursuant to the same agreement, the Company is required to deliver park lands of a certain condition in compliance with park re-conveyance agreement to the City at the project's final stage but it is not possible to accurately estimate the timing and quantify the economic impact of the transaction at this time.

#### Trailing obligations

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

#### Litigation

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

### 34. Capital management

The Company's capital is comprised of debt and shareholder's equity. The following table summarizes the carrying value of the Company's capital as at December 31, 2014 and 2013.

	2014 \$	2013 \$
Shareholder's equity	247,324,914	215,445,784
Debt	36,165,776	37,183,249
	<u>283,490,690</u>	<u>252,629,033</u>

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

## **Build Toronto Inc.**

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

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

##### **Credit risk**

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

The Company, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that management believes the Company has thorough and rigorous credit approval procedures. The Company provides for an allowance for doubtful accounts to absorb potential credit losses when required. During the year ended December 31, 2014, no allowance for doubtful accounts was recorded (2013 - \$nil) and a bad debt amount of \$60,318 (2013 - \$nil) was written off to the consolidated statements of income (loss) and comprehensive income (loss).

The loan receivable from TWSI is collateralized with a leasehold mortgage and \$4.0 million in guarantees from the shareholders of TWSI. As such, in the event of default, the Company can take title and liquidate the assets of TWSI and enforce the guarantees. The cash and cash equivalents and short-term investments are held by a Schedule 1 Canadian financial institution. The VTB mortgage is due no later than November 16, 2016 and is secured by the land. The developers cannot resell the severed lots prior to discharging the VTB mortgage.

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

Interest rate risk is borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its loan payable, the interest rate of which is based on the government agency's average borrowing rate until the rate is fixed, and its cash balances. As at December 31, 2014, a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately \$334,068. Any increase would be passed along to TWSI as loan interest receivable. The deferred loan payable has a matching loan receivable and the interest rate is fixed by contract at 7%.

The VTB mortgage is not subject to interest rate risk as the interest rate is fixed at 6.5% with maturity date on November 16, 2016.

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#### Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. Management believes the liquidity risk of the Company is low. As at December 31, 2014, all obligations of the Company discussed in note 19 are due within one year.

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

	Payments Due by Year				Total
	2015 to 2016	2017 to 2018	2019 to 2020	Thereafter	
	\$	\$	\$	\$	\$
Debt	36,165,776	-	-	-	36,165,776

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

#### 36. Financial instruments - fair value

The Company does not have any available-for-sale or held-to-maturity financial instruments as at or during the year ended December 31, 2014 and 2013.

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

The Company only has current loan receivable due from PTSI and current debt owed to a government agency as at December 31, 2014. The fair value of the non-current loan receivable due from PTSI for \$33,403,778 and the non-current debt owed to a government agency for \$33,406,788 as at December 31, 2013 are reflected below:

	Carrying value as at December 31, 2013	Fair value as at December 31, 2013		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Financial Assets</b>				
Loan receivable	33,403,778	-	33,403,778	-
<b>Financial Liability</b>				
Debt	33,406,788	-	33,406,788	-

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

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

#### **37. Prior year's figures**

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

#### **38. Subsequent events**

On April 27, 2015, the Board of Directors declared a dividend of \$15.0 million to be paid in 2015.

#### **39. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on April 27, 2015.