Build Toronto Inc.

Consolidated Financial Statements

December 31, 2017

April 18, 2018

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, 2017 and consolidated statements of income and comprehensive income, shareholder's 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Build Toronto Inc.
Consolidated Statements of Financial Position

(Canadian $)	Notes	**December 31, 2017**	December 31, 2016
		$	$
ASSETS			
Current assets			
Real estate inventory	5	**123,682,575**	141,185,530
Pre-acquisition costs	6	**2,994,894**	2,492,836
Due from related parties	7	**3,548,829**	2,028,945
Amounts receivable	8	**1,993,110**	903,871
Deferred costs	9	**997,860**	-
Prepaid expenses		**288,544**	314,967
Loans receivable	10	**21,567,993**	33,403,778
Cash and cash equivalents	11	**70,617,202**	51,337,613
Restricted cash	12	**3,808**	31,725
Current assets		**225,694,815**	231,699,265
Non-current assets			
Investment property	13	**14,906,000**	14,620,000
Investment in equity accounted investments	14	**3,867,344**	3,342,061
Investment in joint venture	15	**22,172,372**	22,423,649
Property, equipment and intangible assets	16	**381,303**	413,575
Amounts receivable	8	**2,980,430**	3,072,290
Loans receivable	10	**30,997,310**	20,630,467
Non-current assets		**75,304,759**	64,502,042
Total assets		**300,999,574**	296,201,307
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Amounts payable and other liabilities	17	**5,929,002**	4,825,290
Environmental provision	18	**8,298,169**	9,949,584
Debt	19	**13,198,879**	33,406,788
Current liabilities		**27,426,050**	48,181,662
Non-current liabilities			
Amounts payable and other liabilities	17	**1,172,755**	1,922,140
Environmental provision	18	**-**	7,779,466
Debt	19	**30,241,280**	-
Non-current liabilities		**31,414,035**	9,701,606
Total liabilities		**58,840,085**	57,883,268
Shareholder's Equity	20	**242,159,489**	238,318,039
Total liabilities and shareholder's equity		**300,999,574**	296,201,307
Commitments and contingencies	35		

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

Approved by board:

(Signed by) "Dino Chiesa"

Dino Chiesa, Board Chair

(Signed by) "David Shiner

David Shiner, Vice Chair

Build Toronto Inc.
Consolidated Statements of Income and Comprehensive Income
Years ended December 31, 2017 and 2016

(Canadian $)	Notes	2017	2016
		$	$
Real estate inventory			
Real estate inventory revenue	21	**57,561,660**	50,291,228
Real estate inventory cost of sales	22	**(24,749,032)**	(31,631,833)
		32,812,628	18,659,395
Net rental income			
Rental revenue	23	**2,079,344**	1,979,975
Property operating expenses	24	**(1,362,404)**	(1,344,332)
		716,940	635,643
		33,529,568	19,295,038
Other income and expenses			
Guarantee fee	25	**131,417**	3,219
Project management fees	26	**723,235**	100,000
Interest income	27	**2,373,593**	1,517,816
Income from equity accounted investments	28	**274,006**	443,867
Fair value gains (losses) on investment property	13	**286,000**	(300,000)
General and administrative expenses	29	**(7,670,886)**	(7,273,890)
Project investigative costs	30	**(346,589)**	-
Amortization and depreciation	31	**(164,547)**	(146,391)
Interest expense	32	**(1,052,387)**	(625,340)
Finance costs - Accretion of environmental provision	18	**(78,568)**	(356,999)
		(5,524,726)	(6,637,718)
Net income and comprehensive income		**28,004,842**	12,657,320

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

Build Toronto Inc.

Consolidated Statements of Shareholder's Equity

Years ended December 31, 2017 and 2016

(Canadian $)	Notes	Common shares	Contributed surplus	Retained earnings	Total Shareholder's equity
		$	$	$	$
Balance - January 1, 2016		1	210,534,389	23,523,563	234,057,953
Net income for the year		-	-	12,657,320	12,657,320
Transfer of properties from the shareholder	5a, 34a	-	17,537,459	-	17,537,459
Transfer of property to the shareholder	5b, 34a	-	(934,693)	-	(934,693)
Dividend paid	20b	-	-	(25,000,000)	(25,000,000)
Balance - December 31, 2016		1	227,137,155	11,180,883	238,318,039
Net income for the year		**-**		**28,004,842**	**28,004,842**
Transfer of properties from the shareholder	5a, 34a	**-**	**5,621,034**	**-**	**5,621,034**
Transfer of property to the shareholder	5b, 34a	**-**	**(4,784,426)**	**-**	**(4,784,426)**
Dividend paid	20b	**-**	**-**	**(25,000,000)**	**(25,000,000)**
Balance - December 31, 2017		**1**	**227,973,763**	**14,185,725**	**242,159,489**

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

Build Toronto Inc.

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

(Canadian $)	Notes	**2017**	2016
Cash provided by (used in)		**$**	$
OPERATING ACTIVITIES			
Net income		**28,004,842**	12,657,320
Items not involving cash:			
Straight-line rent		**(251,777)**	(258,557)
Deferred lease inducement/escalations amortization		**31,401**	78,371
Income from equity accounted investments	28	**(274,006)**	(443,867)
Project investigative costs	30	**346,589**	-
Fair value (gains) losses on investment property	13	**(286,000)**	300,000
Accretion of environmental provision	18c	**78,568**	356,999
Non-cash interest income	27	**(29,014)**	(29,014)
Amortization and depreciation	31	**164,547**	146,391
Real estate inventory			
Additions	5c	**(17,030,627)**	(11,439,892)
Cost of sales	22	**24,749,032**	31,631,833
Pre-acquisition costs	6a	**(702,763)**	(586,008)
Changes in other working capital items	33	**(2,703,575)**	(16,413,180)
Total operating activities		**32,097,217**	16,000,396
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets	16	**(124,118)**	(72,204)
Repayment of loan receivable	10a	**2,317,647**	-
Total investing activities		**2,193,529**	(72,204)
FINANCING ACTIVITIES			
Repayment of loan payable	19a	**(2,317,647)**	-
Draw on construction loan	19b	**12,306,490**	-
Payment of dividend	20	**(25,000,000)**	(25,000,000)
Total financing activities		**(15,011,157)**	(25,000,000)
Increase (decrease) in cash and cash equivalents		**19,279,589**	(9,071,808)
Cash and cash equivalents, beginning of year		**51,337,613**	60,409,421
Cash and cash equivalents, end of year	11	**70,617,202**	51,337,613

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

1. ORGANIZATION

Build Toronto Inc. (the Company) was incorporated under the Ontario Business Corporations Act on November 13, 2008. The Company is a wholly-owned subsidiary of the City of Toronto (the City), created to 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, 2017. 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	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.	√		
Build Toronto Holdings (Westwood) Inc.	√		

2. SIGNIFICANT ACCOUNTING POLICIES

a) 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").

b) Basis of presentation

The Company has been identified as an other government organization and accordingly prepares its consolidated financial statements in accordance with IFRS. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is the Company's functional currency. All values are rounded to the nearest dollar, unless otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties as explained in the accounting policies below. The accounting policies set out below have been applied consistently in all material respects. Changes in standards effective for the current year as well as for future accounting periods are described in Note 3 New Accounting standards adopted in 2017 and Note 4 Future Accounting Policy Changes.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Build Toronto Inc. and entities controlled by the Company (its subsidiaries). Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intercompany balances resulting from intercompany transactions are eliminated.

d) Real estate assets

I. Real estate inventory

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

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

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 as incurred.

II. 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 the transfer is recorded. Subsequent expenditures are 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 carried at fair value, determined based on available market evidence, at the balance sheet date. Related fair value gains and losses are recorded in net income in the year in which they arise.

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

III. Transfers of property between inventory and investment property

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.

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.

IV. 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.

Pre-acquisition costs capitalized to-date related to a specific property are transferred to real estate inventory at the date of acquisition or the date the transfer is recorded.

e) 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 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.

f) Investment in joint arrangements

A joint arrangement is a contractual arrangement between the Company and other parties to undertake economic activities that require the unanimous consent of the parties sharing control in strategic financial and operating policy decisions relating to the activities of the joint arrangement. Joint arrangements that involve the establishment of a separate vehicle in which each party has an interest are considered to be joint ventures and are accounted for using the equity method as outlined above.

For joint arrangements where the Company undertakes its activities through a direct interest in a joint arrangement's assets, rather than through the establishment of a separate entity, the arrangement is considered to be a joint operation and the Company's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flows are recognized in the consolidated financial statements and classified according to their natures.

g) Property, equipment and intangible assets

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

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

Type of assets	Depreciation and amortization policy
Leasehold improvements	straight-line over the term of the lease
Furniture and fixtures, office equipment and software licence	3 to 5 years straight-line
Computer equipment	3 years straight-line

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

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

h) 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.

The Company recognizes rental revenue using the straight-line method, whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements is accrued as rent receivable, which is included in amounts receivable as straight-line rent receivable.

Other income includes guarantee fee, management fees and interest income. Interest income is recognized as earned. Guarantee fee and management fees are recorded as the services are provided.

i) 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.

j) Financial instruments

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

	Classification	Measurement
Financial assets		
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
Restricted cash	Loans and receivables	Amortized cost
Financial liabilities		
Amounts payable and other liabilities	Financial liabilities	Amortized cost
Debt	Financial liabilities	Amortized cost

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

I. Loans and receivables

The Company's loans and receivables comprise loans receivable, due from related parties, amounts receivable, cash and cash equivalents and restricted cash, and are included in current and non-current assets depending on their maturities. Loans and receivables are measured at amortized cost.

II. Financial liabilities

Financial liabilities are recorded at amortized cost and include amounts payable and other liabilities and debt. These financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

k) 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 net income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

l) 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.

m) 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.

n) 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.

o) Deferred costs

Leasing costs such as legal fees and legal commissions, tenant allowances and free rent associated with tenant leases are classified as deferred costs and amortized over the entire term of leases. Step-up rent are straight-lined and the adjustment is spread over the term of the leases.

p) Environmental provision

The cost of the Company's obligation to remediate land is recognised when the asset is transferred. A provision is made for environmental remediation costs based on the net present value of estimated future costs with, where appropriate, probability weighting for the different remediation or closure outcomes which could realistically arise. The ultimate cost of remediation is uncertain and Management uses its judgment and experience to provide for these costs.

q) Use of Estimates

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.

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

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

II. Fair value of real estate inventory at the date a transfer is recorded

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

III. 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.

IV. 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.

V. 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.

VI. 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.

r) Critical Judgements

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

I. Determination of initial classification of property as inventory or investment property

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

II. 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.

III. Assessment of classification of associates

The Company's accounting policies relating to the equity accounted investments are described in Note 2(e). 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.

IV. Assessment of classification of joint arrangements

The Company's accounting policies relating to the joint arrangements are described in Note 2(f). In applying this policy, judgment is applied in determining whether the Company has control or joint control over another entity. Once joint control is established it is then assessed whether a joint arrangement should be classified as either a joint operation or a joint venture. As part of this assessment, the Company considers the contractual rights and obligations, voting rights, board representation and the legal structure of the joint arrangement, along with other facts and circumstances present in the contractual agreement.

V. 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 point at which it is considered probable that the future economic benefits associated with the property will flow to the Company, which 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.

VI. Determining approach and frequency of external appraisals for investment property

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

3. NEW ACCOUNTING STANDARDS ADOPTED IN 2017

a) IAS 7, Statement of Cash Flows (IAS 7)

IAS 7 has been amended to improve presentation and disclosure in financial statements by requiring more disclosures that help users to evaluate changes in liabilities arising from financing activities. The disclosures include:

I. a reconciliation of liabilities whose cash flows were, or future cash flows would be, classified as financing activities in the statement of cash flows; and

II. restrictions that affect the decisions of an entity to use cash and cash equivalent balances.

IAS 7 is effective for annual periods beginning on or after January 1, 2017. The Company’s adoption of these amendments did not result in a material impact to the consolidated financial statements.

4. FUTURE ACCOUNTING POLICY CHANGES

a) IAS 40, Investment Property (IAS 40)

Amendments to IAS 40 have been made to provide clarification on when a company should transfer property under construction or development into, or out of investment property. The transfer should take place when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The application of the amendments is effective for annual periods beginning or after January 1, 2018, with earlier application permitted. The Company has assessed the impact of these amendments of IAS 40 on its consolidated financial statements and concluded that they will not result in any material impact.

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

Amendments to IFRS 7 have been made to require additional disclosures on transition from IAS 39 to IFRS 9. These disclosures are effective on adoption of IFRS 9.

c) IFRS 9, Financial Instruments (IFRS 9)

This standard, which will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS39"), in its entirety, addresses the classification, measurement and recognition of financial assets and financial liabilities and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. While determination is made at initial recognition, classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has evaluated the impact of IFRS 9 and concluded no material impact on its consolidated financial statements.

d) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. The Company has evaluated the impact of IFRS 15 and concluded no material impact on its consolidated financial statements.

e) IFRS 16, Leases (IFRS 16)

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

5. REAL ESTATE INVENTORY

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

	Notes	**2017**	2016
		$	$
Balance - Beginning of year		**141,185,530**	143,666,932
Transfer from pre-acquisition costs	6	**181,487**	750,313
Acquisitions - transfers from the shareholder (a)	34a	**5,621,034**	17,537,459
Transfer to the shareholder (b)	34a	**(12,559,745)**	(934,693)
Development costs (c)		**17,021,068**	11,338,744
Costs recovered from the City (c)	7a	**(1,153,683)**	-
Adjustment to environmental provision	18	**(140,430)**	792,658
Costs written off to statement of income (d)		**(26,472,686)**	(31,965,883)
Balance - End of year		**123,682,575**	141,185,530

a) During the year ended December 31, 2017, two properties with fair value of $5,621,034 (2016 - properties with fair value of $17,537,459) were transferred from the shareholder to the Company. The value was based on third-party property-specified appraisals and adjusted for the estimated costs to sell the asset, and represented 19.2% (2016 - 24.8%) of the appraised value. The inputs used to calculate the fair value contain unobservable inputs and thus would be considered to be Level 3 inputs. Market sales data for similar properties were used where possible, and the Company's management exercised judgement to estimate the selling costs. Management believe that there were no environmental issues associated with these transferred properties, and do not anticipate future liabilities for remediation.

b) During the year ended December 31, 2017, two properties with total value of $12,559,745 were returned to the City. The return of the properties of $12,559,745 (2016 - $934,693), net of the reversal of environmental provisions of $7,775,319 (2016 - $nil) (Note 18) were recorded as corresponding decreases in contributed surplus of $4,784,426 (2016 - $934,693).

c) The development costs of $17,021,068 (2016 - $11,338,744), net of recoverable costs of $1,153,683 (2016 - $nil) for one of the returned properties to the City, included leasing costs and tenant inducements of $965,825 (2016 - $nil) recorded as deferred costs and remediation costs of $197,417 (2016 - $101,148) utilized against the environmental provision, are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	Notes	**2017**	2016
		$	$
Development costs		**17,021,068**	11,338,744
Costs recovered from the City		**(1,153,683)**	-
Deferred costs	9a	**965,825**	-
Utilization of environmental provision	18	**197,417**	101,148
		17,030,627	11,439,892

d) The Company wrote off to the cost of sales a total of $26,145,315 (2016 - $31,965,883) during the year ended December 31, 2017, comprised of the costs of the five inventory properties sold in 2017 and minor cost adjustments relating to other properties that were sold in prior years. The project investigative costs written off of $327,371 (2016 - $nil) were attributable to leasing costs which are not expected to benefit future periods. Breakdown of costs written off to the consolidated statements of income and comprehensive income is as follows:

	Notes	**2017**	2016
		$	$
Real estate inventory cost of sales	22	**(26,145,315)**	(31,965,883)
Project investigative costs	30	**(327,371)**	-
		(26,472,686)	(31,965,883)

6. PRE-ACQUISITION COSTS

	Notes	**2017**	2016
		$	$
Balance - Beginning of year		**2,492,836**	2,657,141
Additions (a)		**1,359,820**	735,571
Transfer to real estate inventory	5	**(181,487)**	(750,313)
Costs recovered from the City (a)		**(657,057)**	(149,563)
Costs written off to statement of income (b)	30	**(19,218)**	-
Balance - End of year		**2,994,894**	2,492,836

a) During the year ended December 31, 2017, the Company capitalized $1,359,820 (2016 - $735,571) of investigative and development costs related to properties that have not yet been acquired by the Company.

The additions, reduced by the costs recovered from the City of $657,057 (2016 - $149,563), are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	2017	2016
	$	$
Additions	**1,359,820**	735,571
Costs recovered from the City	**(657,057)**	(149,563)
	702,763	586,008

b) During the year ended December 31, 2017, the Company wrote off abortive project costs of $19,218 to the consolidated statement of income and comprehensive income.

	Notes	**2017**	2016
		$	$
Project investigative costs	30	**(19,218)**	-
		(19,218)	-

7. DUE FROM RELATED PARTIES

	Notes	**2017**	2016
		$	$
Due from City (a)	34a	**3,352,968**	1,570,668
Due from Toronto Port Lands Company (TPLC)	34b	**195,861**	458,277
Due from related parties		**3,548,829**	2,028,945

a) The balance is comprised of the following:

	2017	2016
	$	$
Security deposit (I)	**30,000**	630,000
Recoverable costs from the City (II)	**1,322,797**	89,295
City initiative projects (III)	**1,833,066**	1,053,591
Property tax refund (payment)	**225,737**	(75,603)
Chargebacks by the City	**(58,632)**	(126,615)
	3,352,968	1,570,668

I. Release by the City of $600,000 residual security deposit paid in 2012 to secure the installation of water mains and sanitary sewers along Eglinton Avenue. The work was completed in 2014 and the deposit was held for a twenty-four months guarantee period plus a period to correct deficiencies prior to assumption by the City.

The existing balance is a deposit of $30,000 (2016 - $30,000) held by the City in lieu of a letter of credit for a site.

II. The balance is comprised of recoverable costs of $1,266,577 (2016 - $nil) on a property that was returned to the City in April, and other reimbursable costs of $56,220 (2016 - $89,295).

III. The balance represents recoverable costs incurred on projects of which the Company is an agent for the City and Waterfront Secretariat, a division of the City.

8. AMOUNTS RECEIVABLE

	Notes	2017	2016
		$	$
Recoverable financing costs and loan interest		**48,973**	92,045
Interest differential loan (a)		**375,944**	346,931
Deferred rent (b)		**919,350**	1,033,728
Total due from PT Studios Inc. (PTSI)	34e	**1,344,267**	1,472,704
Trade receivables		**88,564**	-
Purchase price adjustment (c)		**1,806,010**	1,806,010
HST refund (d)		**717,705**	180,389
Interest receivable (e)		**75,760**	339,848
Retainer and other recoverable amounts (f)		**904,583**	136,800
Other		**36,651**	40,410
Total amounts receivable		**4,973,540**	3,976,161
Less: Current portion		**(1,993,110)**	(903,871)
Non-current amounts receivable		**2,980,430**	3,072,290

a) The balance of $375,944 (2016 - $346,931) represents the present value of deferred loan interest due on March 18, 2034.

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 ten-year period at a rate of 5.6%.

c) Amount relates to additional profit participation from the sale of a property that took place in 2010.

d) The increase over 2016 is mainly attributable to construction costs incurred on a property completed in September of 2017 and closing costs for three inventory properties sold in December 2017.

e) In 2017, the Company redeemed all but one of its GICs, funds from the redemption together with the proceeds from the sale of properties have been invested in a premium interest account to earn higher interest and with more flexibility. The interest receivable of $75,760 (2016 - $339,848) relates to interest receivable on the GIC, short-term deposit and premium interest account investment.

f) The balance includes an amount of $737,058 withheld pending finalization of easement agreements and site access costs, related to a property sold during the year ended December 31, 2017, and an estimated recovery of $145,497 related to the probable outcome of a property tax appeal.

9. DEFERRED COSTS

	Leasing costs	Tenant allowance	Subtotal	Free rent and straight-lined rent adjustment	Total
	$	$	$	$	$
	(a), (b), (c)	(a), (b), (d)	Note 5(c)	(b), (d)	
Opening and ending balance and net book value – January 1, 2016 and December 31, 2016	-	-	-	-	-
Opening net book value - January 1, 2017	-	-	-	-	-
Addition	**533,255**	**432,570**	**965,825**	**40,870**	**1,006,695**
Less: Amortization and straight-lined rent adjustment	**(8,157)**	**(1,654)**	**(9,811)**	**976**	**(8,835)**
Ending net book value - December 31, 2017	**525,098**	**430,916**	**956,014**	**41,846**	**997,860**
Balance - December 31, 2017					
Cost	**533,255**	**432,570**	**965,825**	**40,870**	**1,006,695**
Accumulated amortization and straight-lined rent adjustment	**(8,157)**	**(1,654)**	**(9,811)**	**976**	**(8,835)**
	525,098	**430,916**	**956,014**	**41,846**	**997,860**

a) The Company constructed a retail shopping centre which became operational on October 1, 2017. The leasing costs and tenant allowance payments totalling $965,825 (2016 - $nil) are reclassed from real estate inventory to deferred costs.

b) The leasing costs, tenant allowance and free rent incurred on the leases are amortized over the term of the tenants' leases. However, as the property is expected to be sold within the next twelve months, all the deferred costs have been classified as current assets even though all the leases have terms that range from ten to fifteen years.

c) Leasing costs amortization of $8,157 in 2017 (2016 - $nil) resulted in a corresponding increase in the amortization and depreciation (2016 - $nil) (Note 31).

d) Amortization of tenant allowance and free rent and straight-lined rent adjustment of $1,654 and $(976) respectively resulted in corresponding decrease to the rental revenue in 2017 (2016 - $nil).

10. LOANS RECEIVABLE

	Notes	2017	2016
		$	$
Loan receivable - PTSI (a)	19a, 34e, 37a, 37b	**31,133,668**	33,403,778
Vendor-take-back mortgage (b)	37a, 37b	**17,919,605**	17,118,437
Promissory notes (c)	37a, 37b	**3,512,030**	3,512,030
Total		**52,565,303**	54,034,245
Less: Current portion		**(21,567,993)**	(33,403,778)
Non-current loan receivable		**30,997,310**	20,630,467

a) In 2011, the Company assisted TWSI in restructuring debt by obtaining a new long-term facility with a government agency (Note 19(a)). The new facility was interest-only for the first three years of the term (matured on December 23, 2014) and was available to a maximum of $34,500,000; the Company drew $33,406,788 and advanced $33,403,778 to PTSI. On March 10, 2017, the agreement was renewed and PTSI repaid $1,700,000 and the balance was adjusted by $3,010 to match the amount drawn by the Company. The new facility for $31,706,788 was then converted to a 10-year conventional with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and maturing on March 15, 2027.

The balance includes accrued interest of $44,528 (2016 - $nil). During the year ended December 31, 2017, in addition to the repayment of $1,700,000 at conversion in March 2017, PTSI made total principal repayments of $617,647 (2016 - $nil) for the remainder of the year.

The loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.

b) The VTB mortgage was issued in connection with a property sale transaction in September 2016 with proceeds of $26,000,968. The repayment date can be extended for two additional six-month terms from the charge date but not later than the time when the mortgagor has finalized its construction financing or met its construction lender's pre-sales threshold. The VTB mortgage has an interest rate of 4.75% per annum, payable in arrears and the balance includes accrued interest of $1,052,901 (2016 - $251,733).

c) The promissory notes were issued in connection with the sale discussed in (b) above. These notes are non-interest bearing until the maturity date which cannot be determined accurately at this stage but one of them is likely to be in 2018. The notes have an interest rate of prime plus 5% per annum, payable in arrears, from and after their maturity dates, and are for securing the obligations of the Purchaser to construct the shell portion of the building for a community recreational facility and the contracted space for affordable housing.

11. CASH AND CASH EQUIVALENTS

	2017	2016
	$	$
GICs - various maturities within one year but redeemable after 30 days of issue without penalty	**301,000**	41,000,000
Short-term deposits	**4,435,168**	4,995,102
Premium interest account	**60,719,484**	-
Cash	**5,161,550**	5,342,511
Cash and cash equivalents	**70,617,202**	51,337,613

12. RESTRICTED CASH

	2017	2016
	$	$
Restricted cash	**3,808**	31,725

The balance represents a funded amount restricted for use for a project that the Company acts as an agent for the City.

13. INVESTMENT PROPERTY

	2017	2016
	$	$
Balance - Beginning of year	**14,620,000**	14,920,000
Net gain (loss) in fair value	**286,000**	(300,000)
Balance - End of year	**14,906,000**	14,620,000

The film studio land and land improvements are leased to PTSI under a 99-year lease. The film studio land 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 property and accordingly the fair values are classified as Level 3 fair values. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 3 and either Level 1 or Level 2 fair value measurements during the year ended December 31, 2017.

The fair value of the film studio land and land improvements is estimated using discounted cash flows over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation. Inflation is assumed to be at 2% for the first 40 years and 4% beyond 40 years. The discount rate used is 5.5% (2016 – 5.5%). If the discount rate were to increase by 25 basis points (bps), the value of investment property would decrease from $14,906,000 to $13,930,000. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from $14,906,000 to $16,000,000.

a) Valuation processes

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

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

In 2017, the discounted cash flow property valuation was calculated internally to arrive at the fair market value at December 31, 2017. In 2016, the Company utilized an external valuation prepared at December 31, 2016 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.

14. INVESTMENT IN TORONTO WATERFRONT STUDIO INC. AND TORONTO WATERFRONT STUDIOS DEVELOPMENT INC.

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

		TWSDI		**TWSI**	
	Notes	**2017**	2016	**2017**	2016
		$	$	**$**	$
Balance - Beginning of year		**(107,038)**	(65,658)	**3,449,099**	2,748,486
Share of net income (loss)	28	**(33,761)**	(41,380)	**559,044**	700,613
Balance - End of year		**(140,799)**	(107,038)	**4,008,143**	3,449,099

For the years ended December 31, 2017 and December 31, 2016, TWSDI's and TWDI's financial positions are as follows:

	TWSDI		TWSI	
	2017	2016	**2017**	2016
	$	$	**$**	$
Current assets	**465,168**	11,348	**15,236,105**	12,463,020
Non-current assets	**7,351,990**	5,639,508	**40,824,858**	42,104,205
Current liabilities	**8,923,802**	6,686,042	**16,137,158**	47,655,118
Non-current liabilities	**97,348**	-	**31,629,350**	1,412,872
Revenue	**-**	-	**14,228,800**	13,493,506
Net income (loss) from continuing operations	**(168,806)**	(206,902)	**2,795,220**	3,503,067
Net income (loss) and total comprehensive income (loss)	**(168,806)**	(206,902)	**2,795,220**	3,503,067

The Company's 20% share of income from TWSI and TWSDI for 2017 is $525,283 (2016 - $659,233).

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

The investment in equity accounted investments includes $2,610,940 (2016 - $2,610,940) 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.

15. JOINT ARRANGAEMENTS

a) Investment in joint venture

	Notes	**2017**	2016
		$	$
Balance - Beginning of year		**22,423,649**	22,639,015
Share of net loss	28	**(251,277)**	(215,366)
Balance - End of year		**22,172,372**	22,423,649

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

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

			Ownership interest (%)	
Name	**Principal activity**	**Location**	**2017**	2016
120-130 Harbour Street Partnership	Inventory	Toronto, Ontario	**35**	35

For the years ended December 31, 2017 and December 31, 2016, the Partnership reported the following financial positions and results from operations:

	2017	2016
	$	$
Cash and cash equivalents	**2,128,722**	936,761
Current assets	**6,206,866**	29,907,491
Non-current assets	**220,889,561**	149,782,127
Total current liabilities	**24,083,881**	18,651,786
Non-current liabilities	**151,942,390**	108,057,781
Loss from continuing operations	**717,934**	615,332
Net loss and total comprehensive loss	**717,934**	615,332

Losses are allocated to the other partner of the Partnership until the first advance date of construction financing. Subsequent to the first advance date of construction financing, which occurred on July 3, 2015, losses are allocated in proportion to the aggregate capital contributions of the partners. Income is allocated first to the other partner of the Partnership to the extent of previously allocated losses prior to the first advance date of construction financing. The Partnership has incurred cumulative losses of $11,801,122 (2016 - $11,083,188) as at December 31, 2017 of which $11,214,549 (2016 - $10,747,892) have been allocated to the other partner.

b) Investment in joint operation

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

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

			Ownership interest (%)	
Name	**Principal activity**	**Location**	**2017**	2016
Ordnance/ Strachan	Inventory	Toronto, Ontario	**50**	50

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Notes	Leasehold improvements	Furniture and fixtures, office equipment and software licence	Computer equipment	Total
		$	$	$	$
			(a)	(a)	
Balance - December 31, 2016					
Cost		831,508	99,336	138,204	1,069,048
Accumulated depreciation and amortization		(548,088)	(68,574)	(38,811)	(655,473)
		283,420	30,762	99,393	413,575
Opening net book value -January 1, 2016		364,277	47,883	75,602	487,762
Additions		-	10,890	61,314	72,204
Less: Depreciation and amortization	31	(80,857)	(28,011)	(37,523)	(146,391)
Ending net book value - December 31, 2016		283,420	30,762	99,393	413,575
Opening net book value -January 1, 2017		**283,420**	**30,762**	**99,393**	**413,575**
Additions		**-**	**34,613**	**89,505**	**124,118**
Less: Depreciation and amortization	31	**(80,855)**	**(18,475)**	**(57,060)**	**(156,390)**
Ending net book value - December 31, 2017		**202,565**	**46,900**	**131,838**	**381,303**
Balance - December 31, 2017					
Cost		**831,508**	**69,573**	**224,949**	**1,126,030**
Accumulated depreciation and amortization		**(628,943)**	**(22,673)**	**(93,111)**	**(744,727)**
		202,565	**46,900**	**131,838**	**381,303**

a) During the year ended December 31, 2017, fully amortized furniture and fixtures and office equipment of $2,840 and software license of $61,536, and computer equipment of $2,760 (2016 - fully amortized furniture and fixtures and computer equipment totalling $22,772 and $33,890 respectively) were removed from the Company's books.

17. AMOUNTS PAYABLE AND OTHER LIABILITIES

	2017	2016
	$	$
Trade payables - general	**2,224,644**	2,052,190
Accruals (a)	**4,592,823**	4,304,264
Total payables and accrued liabilities	**6,817,467**	6,356,454
Deferred lease inducement	**136,729**	191,401
Deferred lease escalations	**59,231**	82,931
Construction holdbacks	**-**	116,644
Unearned revenue	**88,330**	-
Total	**7,101,757**	6,747,430
Less: Current portion	**(5,929,002)**	(4,825,290)
Non-current amounts payable and other liabilities	**1,172,755**	1,922,140

a) Amount includes accruals of $2,691,228 (2016 - $3,097,973) in connection with properties sold between 2012 and 2017 inclusively. The non-current liabilities were reduced by $749,385 with the payment of affordable housing contributions for a property sold in 2016.

18. ENVIRONMENTAL PROVISION

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

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

	Notes	**2017**	2016
		$	$
Balance - Beginning of year		**17,729,050**	17,014,591
Adjustment to real estate inventory (a)	5	**(140,430)**	792,658
Utilized in year (b)	5c	**(197,417)**	(101,148)
Accretion (c)		**78,568**	356,999
Costs written off to statement of income (d)	22	**(1,396,283)**	(334,050)
Costs written off to contributed surplus (e)	34a	**(7,775,319)**	-
Total - End of year		**8,298,169**	17,729,050
Less: Current portion		**(8,298,169)**	(9,949,584)
Non-current environmental provision		**-**	7,779,466

a) In 2017, the provision was decreased by $140,430 (2016 - increased by $792,658) as a result of the change in discount rate and timing of the remediation costs, which resulted in a corresponding adjustment in the real estate inventory.

b) During the year ended December 31, 2017, environmental remediation costs of $197,417 (2016 - $101,148) were incurred.

c) The Company measures the environmental provision at net present value with a discount rate which reflects the shareholder's WACC of 4.1% (2016 - 4.3%). During the year ended December 31, 2017, accretion of $78,568 (2016 - $356,999) was recognized as a financing cost in the consolidated statements of net income and comprehensive income. The amount is lower than in 2016 as the related properties have been returned to the City early in the year.

d) Amount relates to a property that was sold in 2017, being the reversal of the original environmental provision of $1,500,000, net of previously utilized costs of $103,717, and was adjusted through the cost of sales.

e) The environmental provision of $7,775,319 (2016 - $nil) related to the two properties returned to the City were reversed to contributed surplus.

19. DEBT

	Notes	**2017**	2016
		$	$
Government agency mortgage(a)	37b	**31,133,669**	33,406,788
Construction financing (b)	37b	**12,306,490**	-
Total debt		**43,440,159**	33,406,788
Less: Current portion		**(13,198,879)**	(33,406,788)
Non-current debt		**30,241,280**	-

a) As mentioned in Note 10(a), the facility from a government agency was drawn on in June 2013 to provide financing assistance for PTSI. The loan facility agreement provided for conversion of the facility to a 25-year amortizable debenture on the maturity date of December 2014 and this interest only facility was extended to the beginning of March 2017. On March 10, 2017, the agreement was renewed with a repayment of $1,700,000 to the government agency, and the remaining facility was then converted into a 10-year term mortgage with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and matures on March 15, 2027.

The balance includes accrued interest of $44,528 (2016 - $nil). During the year ended December 31, 2017, in addition to the repayment of $1,700,000 at conversion in March 2017, the Company made total principal repayments of $617,647 (2016 - $nil) for the remainder of the year.

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

b) In November 2016, the Company obtained a loan facility, comprised of an interim construction loan and an operating loan, total not to exceed the amount of $16.8 million for the construction of a property for commercial use. The loan facility has been collateralized by a first mortgage charge on the construction site, guarantee, insurance policies and by assignment of term deposits, rents and leases. The financing of the interim construction loan and the operating loan consists of interest bearing loans at prime plus 0.50% per annum and bankers' acceptances at 2.00% per annum, and prime plus 0.50% per annum respectively. The Company started drawing on it in February 2017 and the borrowed amount has to be repaid by July 31, 2018 if not extended by the lender. The total interest incurred is $191,963 (2016 - $nil) of which $95,861 (2016 - $nil) has been capitalized to the real estate inventory.

20. SHAREHOLDER'S EQUITY

a) Common share - As at December 31, 2017, one (2016 - one) common share is authorized, issued and outstanding.

b) Dividends - A dividend of $25 million was declared and paid during the year ended December 31, 2017 (2016 - $25 million).

21. REAL ESTATE INVENTORY REVENUE

	2017	2016
	$	$
Real estate inventory revenue	**57,561,660**	50,291,228

During the year ended December 31, 2017, the Company sold five inventory properties for $57,561,660 (2016 – four properties for $50,241,228) to third parties.

22. REAL ESTATE INVENTORY COST OF SALES

	Notes	**2017**	2016
		$	$
Land		**19,938,609**	22,771,562
Capitalized costs		**4,523,534**	8,178,224
Legal and commissions		**1,683,172**	1,016,097
Real estate inventory cost of sales	5d	**26,145,315**	31,965,883
Reversal of environmental provision	18d	**(1,396,283)**	(334,050)
Total real estate inventory cost of sales		**24,749,032**	31,631,833

23. RENTAL REVENUE

	Notes	**2017**	2016
		$	$
Leases	9d	**710,817**	517,114
Licenses		**257,475**	189,900
Recoverable operating costs and property taxes		**1,111,052**	1,272,961
Total rental revenue		**2,079,344**	1,979,975

24. PROPERTY OPERATING EXPENSES

	2017	2016
	$	$
Utilities, repairs and maintenance and security	**49,103**	1,386
Insurance	**21,663**	25,166
Property taxes	**1,200,222**	1,271,244
Other recoverable operating costs	**85,575**	-
Other non-recoverable operating costs	**5,841**	46,536
Total property operating costs	**1,362,404**	1,344,332

25. GUARANTEE FEE

	Notes	2017	2016
		$	$
Guarantee fee	34e	**131,417**	3,219

On March 10, 2017, the interest-only loan facility was amended to become an amortizing loan to PTSI. Concurrently, the Company entered into an amended and extended loan from the government agency. PTSI pays the Company a guarantee fee of $166,000 per annum, calculated as 0.50% of the appraised studio lands value of $33,200,000 which were pledged as security for the Company's loan.

26. PROJECT MANAGEMENT FEES

	Notes	2017	2016
		$	$
Bridge and path (a)	34a	**50,000**	100,000
Rail deck park (b)	34a	**147,000**	-
Property consulting (c)	34b	**276,235**	-
Joint operation project management (d)	35c	**250,000**	-
Total project management fees		**723,235**	100,000

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

b) On March 24, 2017, the City engaged the Company as a team member of the rail deck park project to provide support for the implementation of the project work plan. In return, the Company received total project management fee of $147,000 (2016 - $nil).

c) Pursuant to an agreement entered into in January 2014 between TPLC and the Company, the Company assists TPLC in the management and selling of a property in return for 20% of the net proceeds. On May 3, 2017, a part of the property was sold and the Company received, in addition to the cost reimbursements, property consulting fees of $276,235 (2016 - $nil).

d) On November 1, 2015, the co-owners of the joint venture operation entered into a consulting agreement with a purchaser for certain work and services required relating to the inventory properties sold on October 29, 2015. A fee of $250,000 (2016 - $nil) was earned by each co-owner for assistance in achieving milestones related to the trailing obligations of the purchaser.

27. INTEREST INCOME

	2017	2016
	$	$
Investments	317,101	503,055
Mortgage receivable interest	1,685,100	312,231
Loan interest	156,642	652,781
Bank interest income	214,223	48,886
Other	527	863
Total interest income	2,373,593	1,517,816
Add (deduct):		
Amortization of interest differential loan discount	(29,014)	(29,014)
Total amortization of non-cash interest income	(29,014)	(29,014)
Change in accrued mortgage receivable interest	(845,696)	(251,733)
Change in accrued loans receivable interest	(284)	5,397
Change in GIC and short-term deposits interest accrued	264,088	86,726
Cash interest received	1,762,687	1,329,192

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

28. INCOME FROM EQUITY ACCOUNTED INVESTMENTS

	Notes	**2017**	2016
		$	$
TWSDI	14	(33,761)	(41,380)
TWSI	14	559,044	700,613
	34e	525,283	659,233
120-130 Harbour Street Partnership	15	(251,277)	(215,366)
Income from equity accounted investments		274,006	443,867

29. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	**2017**	2016
		$	$
Salaries and benefits		**5,575,310**	5,587,954
Restructuring costs	40b	**215,645**	80,583
Office services		**526,664**	454,884
Office occupancy		**673,058**	658,593
Professional fees		**527,783**	388,026
Marketing and promotion		**152,426**	103,850
General and administrative expenses		**7,670,886**	7,273,890

30. PROJECT INVESTIGATIVE COSTS

	Notes	2017	2016
		$	$
Costs written off from real estate inventory	5d	**327,371**	-
Costs written off from pre-acquisition costs	6b	**19,218**	-
Project investigative costs		**346,589**	-

31. AMORTIZATION AND DEPRECIATION

	Notes	2017	2016
		$	$
Amortization of leasing costs	9	**8,157**	-
Depreciation	16	**156,390**	146,391
Amortization and depreciation		**164,547**	146,391

32. INTEREST EXPENSE

	2017	2016
	$	$
Interest expense incurred on debt	**1,052,387**	622,483
Other	**-**	2,857
	1,052,387	625,340
Add:		
Change in debt accrued interest	**103,823**	(1,419)
Cash interest paid	**1,156,210**	623,921

33. SUPPLEMENTAL CASH FLOW INFORMATION

	2017	2016
	$	$
Decrease in restricted cash	**27,917**	27,143
(Increase) decrease in due from related parties	**(1,519,884)**	122,208
(Increase) decrease in amounts receivable	**(712,818)**	432,423
Decrease in prepaid expenses	**26,423**	217,933
Increase in loans receivable	**(801,167)**	(20,630,467)
Increase in amounts payable and other liabilities	**275,954**	3,417,580
Changes in non-cash working capital	**(2,703,575)**	(16,413,180)

a) Supplementary information

	Notes	2017	2016
		$	$
Interest received during the year	27	**1,762,687**	1,329,192
Interest paid during the year	32	**1,156,210**	623,921

34. RELATED PARTIES

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

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

a) The City

During the year ended December 31, 2017, the shareholder transferred a property to the Company which at the time of transfer had a fair value of $5,621,034 (2016 - $17,537,459) (Note 5(a)), and the transfer was recorded with a corresponding increase of the contributed surplus. This was offset by the return of two properties to the Shareholder with a total carrying value of $12,559,745 (2016 - $934,693) (note 5(b)), net of the corresponding environmental provision of $7,775,319 (2016 - $nil) (Note 18(d)). Overall, the effect of property transfers is an increase of contributed surplus of $836,608 (2016 - $16,602,766).

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

	Notes	**2017**	2016
		$	$
Real estate inventory (I)		**2,963,901**	1,868,438
Pre-acquisition costs (I)		**241,972**	236,972
Due from related parties	7a	**3,352,968**	1,570,668
Amounts receivable (II)	8f	**145,497**	-
Amounts payable and other liabilities (III)		**(1,339,022)**	(858,451)

I. Amounts relate to capitalized application and permit fees, development charges and realty taxes.

II. Balance represents estimated realty tax recovery upon successful tax appeal.

III. The balance includes affordable housing second mortgage of $756,030 (2016 - $756,030) payable to the City on a property that was sold in 2016, estimated accrued realty tax and water and sewer service of $582,992 (2016 - $102,421) owed to the City.

The Company had transactions with the City in its ordinary course of business throughout the year ended December 31, 2017. Transactions, both revenue and (expenses) with the City, which passed through the consolidated statements of net income and comprehensive income during the year were as follows:

	Notes	**2017**	2016
		$	$
Project management fees	26a, 26b	**197,000**	100,000
Real estate inventory cost of sales (IV)		**(638,236)**	(1,145,507)
Property operating expenses (V)		**(1,275,403)**	(1,271,244)
General and administrative expenses (VI)		**(217,730)**	(191,349)

IV. The balance comprises of accrued municipal taxes, City planning approval fees and other City charges.

V. The balance comprises of water and sewer service costs, property taxes and rental expenses.

VI. The charge is for City legal services performed during the year.

In addition, the Company declared and dividends of $25 million to the City during the year (2016 - $25 million) (Note 20).

b) Toronto Port Lands Company

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

	Notes	**2017**	2016
		$	$
Due from related parties	7	**195,861**	458,277

Pursuant to an agreement between TPLC and the Company entered into in 2014, the Company assisted TPLC in the management and selling of a property in return for 20% of the net proceeds in addition to costs reimbursement. On May 3, 2017, part of the property was sold and the Company received costs reimbursement of $490,647 (2016 - $nil) and property consulting fees of $276,235 (2016 - $nil) (Note 26(c)). The outstanding balance represents additional recoverable costs and charges, net of recovery, incurred in the year. In 2016, the Company received a repayment of $782,747 from TPLC in settlement of all other outstanding amounts.

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

The Company had transactions with TPLC in its ordinary course of business throughout the year ended December 31, 2017. Revenue from TPLC which passed through the consolidated statements of net income and comprehensive income during the year was as follows:

	Notes	**2017**	2016
		$	$
Project management fees	26c	**276,235**	-

c) Toronto Transit Commission

During the year ended December 31, 2017, there were no transactions (2016 – recoverable property taxes of $196,532) with the TTC that passed through the consolidated statements of net income and comprehensive income.

	2017	2016
	$	$
Rental revenue	**-**	201,868

d) Toronto Hydro-Electric Systems Limited

The Company had transactions with the THSL in its ordinary course of business throughout the year ended December 31, 2017. The consolidated statements of financial position include the following balances related to the THSL:

	2017	2016
	$	$
Real estate inventory	**274,304**	264,507

Amount represented capitalized utility connection and usage costs for properties under development.

e) 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:

	Notes	**2017**	2016
		$	$
Amounts receivable	8	**1,344,267**	1,472,704
Loans receivable	10a	**31,133,668**	33,403,778
Investment in equity accounted investments (I)	14	**3,867,344**	3,342,061

I. The Company, through BTHOI, holds 20% equity interests in TWSI and TWSDI (Note 14). 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.

The Company had transactions with PTSI and TWSI throughout the year ended December 31, 2017 and the transactions which passed through the consolidated statements of net income and comprehensive income were as follows:

	Notes	**2017**	2016
		$	$
Rental revenue		**1,502,203**	1,586,490
Guarantee fee	25	**131,417**	3,219
Share of net income from equity from equity accounted investments	28	**525,283**	659,233
Interest income		**1,039,638**	711,936

f) 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:

	2017	2016
	$	$
Salaries and other short-term employee benefits and termination benefits	**1,314,474**	1,243,091
Directors' fees	**84,750**	87,500
	1,399,224	1,330,591

g) Post-employment benefit plan

All of the Company's permanent employees participate in a pension plan through OMERS. The Company makes contributions to OMERS, which is a multi-employer pension plan, on behalf of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entities participating in the plan and therefore the Company does not recognize any share of the OMERS pension surplus or deficit. The Company's current service contributions to the OMERS pension plan for the year ended December 31, 2017, which are expensed, totalled $524,701 (2016 - $511,891) and are included in salaries and employee benefits expense in the consolidated statements of net income and comprehensive income.

35. COMMITMENTS AND CONTINGENCIES

a) Operating Leases

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

	$
2018	310,750
2019	310,750
2020	155,375
	776,875

During the year ended December 31, 2017, the Company paid $310,750 (2016 - $310,750) in minimum lease payments with respect to the lease of the office premise, and operating lease payments of $12,764 (2016 - $17,439) for office equipment, which have been included in the net income for the year.

b) Investment in TWSI and TWSDI

From time to time, BTHOI receives cash funding calls from the operations of TWSI and TWSDI for the construction of film studios and office premises, which it is obligated to fund, at an amount equivalent to 20% of its equity ownership of the cash requirements. The Company's future commitments are determined through ongoing negotiations with the investees and investors.

c) Investment in joint operation

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

In 2017, the Company received a sum of $250,000 from the joint operation for management and on achieving the milestone of park lands submission, and the second milestone being the park reconveyance to the City is expected to be in the first quarter of 2019. The Company expects all the specific requirements to be met no later than October 2020 when it will receive the remaining project management fees of $125,000.

As part of the trailing obligations, the Company is also required to assist in the provision of a certain number of affordable housing units by providing financial assistance to the purchasers of those units. The Company estimates total costs of $1,500,000 to be incurred in the future.

d) Trailing obligations

On December 19, 2017, the Company sold a property to a third-party developer. Conditional to the sale, the purchaser has to enter into an affordable housing reconveyance agreement with a non-profit organization by delivering to the latter a part of the property for the development of affordable housing. As consideration for the assignment, the Company will receive an amount of $600,000 from the non-profit organization.

e) Loan guarantee

The Company's debt as described in Note 19(a) is a result of the restructuring and assistance provided by it to TWSI. The Company receives a fee of $166,000 per annum to compensate it for the provision of the Film Studio lands to securitize its loan from the government agency (Note 25).

f) Future assignment of loans receivable

I. On September 8, 2016, the Company sold a property to a third-party developer. Conditional to the sale was a requirement of the purchaser to include in the project a community recreational centre and 15 condominium units of affordable housing. The obligations are securitized by promissory note of $2,756,000 for the community centre. The cost of the new community recreational centre is to be funded by the City, and the Company has been directed by the City to assign the loan to the future owner of the community centre, which will then use to pay the developer for the construction costs of the shell of the facility.

II. The Company is also required to contribute $756,030 for affordable housing which will be assigned to third parties once the developer has met the requirements, an obligation fulfilled by the Company in September 2017. The affordable housing loan will be utilized along with other accrued amounts to provide second mortgage financing for future purchasers of the affordable housing units.

g) Contractual obligations

The Company has $2,005,411 outstanding letters of credit issued by financial institution to support certain of the Company's contractual obligations.

h) 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.

36. 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, 2017 and 2016.

	Notes	**2017**	2016
		$	$
Shareholder's equity	20	**242,159,489**	238,318,039
Debt	19	**43,440,159**	33,406,788
		285,599,648	271,724,827

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.

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

a) 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, 2017, no allowance for doubtful accounts was recorded (2016 - $nil) and no bad debt (2016 - $nil) was written off to the consolidated statements of net income and comprehensive income.

The mortgage receivable due 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 VTB mortgage of $17,919,605 (2016 - $17,118,437) (Notes 10(b)) and promissory notes, totalling $3,512,030 (2016 - $3,512,030) (Notes 10(c)) due from the third-party developer are registered and secured on the sold property. The cash and cash equivalents and short-term investments are held by a Schedule 1 Canadian financial institution.

b) 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 construction financing (Note 19(b)), the interest rate of which is set at prime plus 0.50% per annum. As at December 31, 2017, 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 $123,065.

The mortgage receivable and deferred rent mortgage due from PTSI are not subject to interest rate risk as the interest rates are fixed at 3.33% and 5.6% respectively. The VTB mortgage due from a third-party has a fixed interest rate of 4.75% until April 2018 when the interest rate will become 4.75% plus the difference between the prime and 4.75% so that a 1% change in the prime would have resulted in an annualized change in interest income of approximately $168,667 (Notes 10(b)). The promissory notes are not subject to interest rate risk now as they are non-interest bearing until the maturity date when an interest rate of prime plus 5% per annum would be imposed.

c) 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.

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

	Payments Due by Year				
	2018 to 2019	**2020 to 2021**	**2022 to 2023**	**Thereafter**	**Total**
	$	**$**	**$**	**$**	**$**
Debt	14,075,409	1,842,976	1,969,716	25,552,058	43,440,159

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.

38. FINANCIAL INSTRUMENTS – FAIR VALUE

The Company's financial instruments, consisting of due from related parties, amounts receivable, cash and cash equivalents, restricted cash, amounts payable and other liabilities and variable-rate debt, are carried at amortized cost which approximates fair value due to their short-term nature. For the Company's fixed-rate loans receivable and loans payable, the carrying value approximates fair value as market interest rates have not materially changed from the date the loans were originated.

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

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

39. PRIOR YEAR'S FIGURES

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

40. SUBSEQUENT EVENTS

a) Declaration of dividend

On April 18, 2018, the Board of Directors declared a dividend of $25 million to be paid in 2018.

b) City-wide real estate review

In 2016, the City Council undertook a City-wide Real Estate Review to derive an approach that will strengthen the financial processes, strategic planning, oversight and decision-making involving its real estate portfolios. As part of the transformation, the real estate assets of some of the City real estate entities will be managed centrally under CreateTO, a newly established agency, to be put into best use through implementing a holistic City building strategy, balancing the community and economic benefits. The whole transformation will take two to four years before the whole framework is established.

Pursuant to a service agreement established between CreateTO and the Company, effective January 1, 2018, the Company will engage CreateTO to provide different types of services for a fee. The services include accounting, risk management, tax, finance, record keeping, financial statement preparation and audit support, legal services; treasury functions; regulatory compliance; information systems; executive management, corporate and other centralized services, and any other services mutually agreed between the two parties. This is an annual arrangement which will be automatically renewed on each anniversary date unless either party terminates it.

Effective January 1, 2018, employees of the Company became employees of CreateTO in alignment with the transformation objectives to provide real estate development and management services and this resulted in the Company accruing a restructuring provision of $215,645 in December 2017.

c) Change in equity accounted investment share ownership

On March 28, 2018, Bell Media Inc. (“Bell”) entered into a share purchase agreement with Return On Innovation Fund Inc. (“ROI”), TWSI and TWSDI, to purchase the issued and outstanding shares of TWSI and TWSDI held by ROI, which represents 46.17% of the equity in each of TWSI and TWSDI. On closing of the agreement, the three remaining shareholders (including BTHOI, a subsidiary of the Company, which owns 20%, (Note 14)) granted Bell an option (which will be automatically exercised on closing) to purchase, pro-rata, additional shares to bring its ownership of TWSI to 50.01% and of TWSDI to 49.99%. A second option, also part of this agreement, will enable Bell to purchase, pro-rata, an additional 0.02% of the shares of TWSDI from the three remaining shareholders to bring its ownership to 50.01%, on the third anniversary of the agreement, or 30 days after completion of a planned expansion, or any other date(s) as agreed to between Bell and any one of the three remaining shareholders, whichever occurs earlier.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on April 18, 2018.