

Consolidated Financial Statements

**Build Toronto Inc.**

December 31, 2009

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## AUDITORS' REPORT

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

We have audited the consolidated balance sheet of **Build Toronto Inc.** as at December 31, 2009 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
May 11, 2010.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

**Build Toronto Inc.**

**CONSOLIDATED BALANCE SHEET**

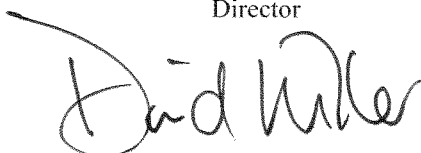
As at December 31

	2009	2008
	\$	\$
<b>ASSETS</b>		
Land and land improvements <i>[note 7]</i>	13,158,812	—
Loans receivable <i>[note 5[a] and 5[b]]</i>	27,521,802	—
Investment in affiliated company <i>[note 3]</i>	2,565,363	—
Accounts receivable <i>[notes 4 and 8[a]]</i>	654,208	—
Prepaid expenses and deposits	287,226	—
Deferred rent receivable <i>[note 6]</i>	136,461	—
Interest receivable <i>[note 8[b]]</i>	128,560	—
Construction in progress	126,062	—
Cash	120,072	—
	<u>44,698,566</u>	<u>—</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)</b>		
Loan payable <i>[note 9]</i>	30,000,000	—
Due to related party <i>[note 8[c]]</i>	3,558,086	18,803
Accounts payable and accrued liabilities	77,632	—
<b>Total liabilities</b>	<u>33,635,718</u>	<u>18,803</u>
<b>Shareholder's equity (deficiency)</b>		
Share capital		
Authorized and issued		
1 common share	1	1
Deficit	(4,661,328)	(18,804)
Contributed surplus	15,724,175	—
<b>Total shareholder's equity (deficiency)</b>	<u>11,062,848</u>	<u>(18,803)</u>
	<u>44,698,566</u>	<u>—</u>

*See accompanying notes*

Approved on behalf of the Board:

Director



Director



**Build Toronto Inc.**

**CONSOLIDATED STATEMENT OF OPERATIONS  
AND DEFICIT**

	Period from January 1 to December 31, 2009 \$	Period from November 13 to December 31, 2008 \$
<b>REVENUE</b>		
Rental income	3,000	—
<b>EXPENSES</b>		
Salaries and employee benefits <i>[note 10]</i>	1,359,705	—
Rental properties	13,758	—
Project investigative costs	299,110	—
Legal and consulting fees	539,228	18,804
Office and services	75,256	—
Office rent	28,755	—
Marketing and promotion	29,960	—
Financing cost <i>[note 5]</i>	2,299,752	—
	<u>4,645,524</u>	<u>18,804</u>
<b>Deficiency of revenue over expenses for the period</b>	<b>(4,642,524)</b>	<b>(18,804)</b>
Deficit, beginning of period	(18,804)	—
<b>Deficit, end of period</b>	<b>(4,661,328)</b>	<b>(18,804)</b>

*See accompanying notes*

**Build Toronto Inc.****CONSOLIDATED STATEMENT OF CASH FLOWS**

	Period from January 1 to December 31, 2009 \$	Period from November 13 to December 31, 2008 \$
<b>OPERATING ACTIVITIES</b>		
Deficiency of revenue over expenses for the period	(4,642,524)	(18,804)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(654,208)	—
Prepaid expenses and deposits	(287,226)	—
Accounts payable and accrued liabilities	77,632	—
Due to related party <i>[note 2]</i>	2,802,821	18,803
Interest receivable	(128,560)	—
<b>Cash used in operating activities</b>	<b>(2,832,065)</b>	<b>(1)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in loan payable	30,000,000	—
Issue of capital stock	—	1
<b>Cash provided by financing activities</b>	<b>30,000,000</b>	<b>1</b>
<b>INVESTING ACTIVITIES</b>		
Loans receivable <i>[note 2]</i>	(26,921,801)	—
Construction in progress	(126,062)	—
<b>Cash used in investing activities</b>	<b>(27,047,863)</b>	<b>—</b>
<b>Net increase in cash during the period</b>	<b>120,072</b>	<b>—</b>
Cash, beginning of period	—	—
<b>Cash, end of period</b>	<b>120,072</b>	<b>—</b>

*See accompanying notes*

## **Build Toronto Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009

## **1. INCORPORATION AND MANDATE**

Build Toronto Inc. [the "Corporation"] was incorporated under the Ontario Business Corporations Act on November 13, 2008. The Corporation is a wholly owned subsidiary of the City of Toronto [the "City"]. As a municipal corporation under Section 149(1) of the *Income Tax Act* (Canada), the Corporation is exempt from income taxes.

On December 16, 2009, Build Toronto Holdings One Inc. ["BTHOI"], a wholly owned subsidiary, was incorporated to hold the investment and related obligations in Toronto Waterfront Studios Inc. ["TWSI"].

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for profit-oriented enterprises. The significant accounting policies are as summarized below:

### **Basis of consolidation**

These consolidated financial statements include the assets, liabilities, and results of operations of the Corporation and its wholly-owned subsidiary, BTHOI. All intercompany balances and transactions between the subsidiary and the Corporation have been eliminated.

### **Adoption of new accounting standards**

In 2009, the Corporation adopted amendments to the recommendations of The Canadian Institute of Chartered Accountants ["CICA"] contained within CICA Handbook Section 3862, "Financial Instruments – Disclosures". These amendments enhance disclosures about fair value measurement, including the relative reliability of the inputs used in those measurements, as well as liquidity risk. In terms of fair value measurement, the standard establishes a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

### **Future accounting policy changes**

In September 2009, the Public Sector Accounting Standards Board ["PSAB"] approved an amendment to the Introduction to Public Sector Accounting Standards. Under the amendment, government business enterprises will adhere to standards for publicly accountable profit-oriented enterprises, meaning the adoption of International Financial Reporting Standards ["IFRS"], for fiscal periods beginning on or after January 1, 2011. Government business-type organizations

## **Build Toronto Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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["GBTOs"] classification in the Public Sector Accounting Handbook would be eliminated and government organizations currently classified as GBTOs may be categorized as other government organizations ["OGOs"] or government not-for-profit organizations ["GNFPOs"]. The Corporation has been identified as a GBTO which under these new rules is an OGO and as such will adopt Public Sector Accounting Standards or IFRS. Management is currently addressing which option to choose.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and short-term investments with original maturities of less than three months and are recorded at cost plus accrued investment income which approximates market value.

### **Revenue recognition**

Revenue is recorded when services are provided and collection is reasonably assured.

### **Land and land improvements**

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

Land improvements	40 years
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### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Build Toronto Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

### Investment in affiliated company

The Company's investment includes a 20% equity interest in an affiliated company, TWSI. The investment is accounted for using the equity method.

### Transfer of assets

City Council declared specific City or City of Toronto Economic Development Corporation [operating as the Toronto Port Lands Company or "TPLC"] properties as surplus to be transferred to the Corporation or its subsidiaries at nominal value. The Corporation has adopted the recommendations of the CICA Handbook Section 3840, "Related Party Transactions", and as a result, properties and related assets or liabilities transferred to the Corporation are recorded at their carrying amount or net book value with corresponding net increases to contributed surplus.

On December 31, 2009, the following assets were transferred to the Corporation from TPLC:

Asset transferred	Transfer price	Consideration	Contributed surplus
	\$	\$	\$
Investment in affiliated company	2,565,363	5	2,565,363
Land and land improvements	13,158,812	5	13,158,812
Loan receivable	600,001	600,001	—
Deferred rent receivable	136,461	136,461	—
Total	16,460,637	736,472	15,724,175

Consideration received for the loan receivable of \$600,001 and deferred rent receivable of \$136,461 has been included in due to related party. The transfer of these assets was non-cash in nature and therefore these items have been excluded from the consolidated statement of cash flows.

### 3. INVESTMENT IN AFFILIATED COMPANY

On December 31, 2009, the Corporation's subsidiary, BTHOI, acquired the shares, assignment of the lease, receivables and property associated with TPLC's interest in TWSI at nominal value.



## Build Toronto Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

## 4. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$641,279 representing funds held in escrow. This amount was received subsequent to the year end.

## 5. LOANS RECEIVABLE

[a] BTHOI acquired a loan receivable of approximately \$26.9 million from a financial intermediary plus a prepayment penalty of \$2.3 million in connection with a loan. The loan expires in 2018 and has an interest rate of 5.6% with a balloon payment of \$12.2 million. The loan is collateralized with a leasehold mortgage and \$14 million in guarantees from the shareholders of TWSI of which \$10 million is guaranteed by TPLC.

Principal repayments on the loan receivable in each of the next five years and thereafter are estimated as follows:

Year	\$
2010	1,349,755
2011	1,426,538
2012	1,507,689
2013	1,593,165
2014	1,683,386
Thereafter	19,361,268
	<u>26,921,801</u>

This loan was acquired using the proceeds of a short-term bridge loan with a Canadian financial institution which expires on May 31, 2010, and management intends to refinance the same with another loan facility. The Corporation is finalizing negotiations of a loan agreement with TWSI in 2010 which is expected to include proceeds to cover the loan with the financial intermediary acquired and the prepayment penalty and costs associated with the refinancing.

[b] Also included in the loans receivable is an amount of \$600,001 receivable from TWSI, which was advanced as shareholder's working capital contribution. The rate of interest and the repayment for this loan are subject to the approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the coming year.

## Build Toronto Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

## 6. DEFERRED RENT RECEIVABLE

On December 31, 2009, BTHOI acquired the assignment of a ground lease between TPLC and TWSI. Pursuant to the deferred rent clause in the said lease, TWSI has been given a deferral of 50% of basic rent payable for a period of five years starting from June 22, 2009. This deferral is on an interest free basis. The fair value of this receivable is \$136,461 as at December 31, 2009.

## 7. LAND AND LAND IMPROVEMENTS

Land and land improvements consist of the following:

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	2,019,687	—	2,019,687
Land improvements	11,139,124	—	11,139,124
	<u>13,158,811</u>	<u>—</u>	<u>13,158,811</u>

## 8. RELATED PARTY TRANSACTIONS

- [a] Included in accounts receivable is an amount of \$12,929 due from Invest Toronto Inc., an affiliated company.
- [b] An amount of \$128,560 is receivable from TWSI as interest accrued on the loan receivable.
- [c] Due to related parties includes \$3,558,086 owing to TPLC, an affiliated company.

## 9. LOAN PAYABLE

On December 31, 2009, the Corporation entered into an interest only bridge loan of \$30 million with a Canadian financial institution expiring on May 31, 2010 bearing interest at 2.25%. The loan is collateralized by properties with a carrying value of at least \$30 million.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009

### **10. EMPLOYEE BENEFITS**

The Corporation makes contributions to the Ontario Municipal Employees' Retirement Fund ["OMERS"], which is a multi-employer pension plan, on behalf of some of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the Corporation does not recognize any share of the OMERS pension surplus or deficit. The Corporation's current service contributions to the OMERS pension plan in 2009, which were expensed, totaled \$28,520 [2008 - nil] and are included in salaries and employee benefits expense on the consolidated statement of operations and deficit.

### **11. COMMITMENTS**

[a] Future minimum annual lease payments are as follows:

<u>Year</u>	<u>\$</u>
2010	282,500
2011	282,500
2012	282,500
2013	282,500
2014	282,500
Thereafter	1,553,750
	<u>2,966,250</u>

[b] The Company has commitments to make leasehold improvements in the amount of \$435,000 on leased premises.

[c] The Corporation through its subsidiary is required to advance working capital in response to requests from TWSI in the amount of \$260,000 due at various times through 2010.

**Build Toronto Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**12. FINANCIAL INSTRUMENTS**

**[a] Fair value**

The Corporation's financial instruments, other than investment in affiliated company and loans receivable, consist of cash, accounts receivable, interest receivable, accounts payable and accrued liabilities and loan payable. These financial instruments are carried at cost, which approximates fair value.

The fair value of the \$600,001 loan receivable cannot be determined as the loan is not repayable and the interest is unknown until these are approved by the Board of Directors of TWSI.

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

As at December 31, 2009, the investment in affiliated company is classified as a Level 3 category.

**Build Toronto Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**[b] Risk management**

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

**[i] 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 Corporation. The cost of the assets as presented in the consolidated balance sheet represents the maximum credit risk exposure at the date of the consolidated financial statements.

The Corporation, 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 Corporation has thorough and rigorous credit approval procedures. The Corporation provides for an allowance for doubtful accounts to absorb potential credit losses when required.

The loans receivable are collateralized by a leasehold mortgage and \$14,000,000 in guarantees from the shareholders of TWSI, \$10,000,000 of which is guaranteed by TPLC. As such, in the event of default, the Corporation can take title and liquidate the properties to cover a portion of the balance owing with the guaranteed amount covering the remaining balance.

The cash deposit is held by a Canadian financial institution which management believes is reputable.

Management believes that the Corporation's credit risk exposure is low.

**[ii] 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 Corporation is low.

**Build Toronto Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **13. CAPITAL MANAGEMENT**

In managing capital, the Corporation focuses on liquid resources available for operations. The Corporation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. City Council also provided a \$10 million start-up loan facility for the Corporation. The loan documentation will be completed in 2010 and the Corporation intends to draw on the loan facility to repay TPLC for funds advanced in 2009 during the transition. As at December 31, 2009, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.

