

Consolidated Financial Statements

**City of Toronto Economic Development
Corporation c.o.b.**

Toronto Port Lands Company

December 31, 2009

AUDITORS' REPORT

To the Shareholder of the
City of Toronto Economic Development Corporation

We have audited the consolidated balance sheet of the **City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company** as at December 31, 2009 and the consolidated statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Ernst & Young LLP

Toronto, Canada,
May 4, 2010.

Chartered Accountants
Licensed Public Accountants

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

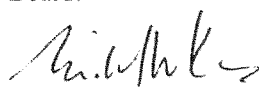
CONSOLIDATED BALANCE SHEET

As at December 31

	2009	2008
	\$	\$
ASSETS		
Current		
Cash	4,774,002	2,001,468
Investments [note 3]	500,000	773,794
Accounts receivable [notes 10 and 17[b]]	13,017,269	11,632,249
Prepaid expenses	66,210	53,041
Mortgage receivable [note 5]	13,464,834	100,151
Properties held for sale [notes 6 and 10]	176,798	10,535,083
Total current assets	31,999,113	25,095,786
Restricted cash and investments [note 3]	10,254,564	10,348,535
Rent receivable	128,354	114,921
Deferred charges	—	260,475
Deferred project costs [note 7]	1,232,995	1,279,881
Property under development [note 8]	121,420,642	48,165,364
Property and equipment, net [note 9]	34,918,705	51,250,956
	199,954,373	136,515,918
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities [notes 10 and 17[b]]	23,397,492	21,394,153
Deposits on property held for sale and property under development [notes 6 and 8]	3,500,000	5,333,615
Current portion of prepaid rents [note 11]	432,192	255,997
Total current liabilities	27,329,684	26,983,765
City of Toronto loans [notes 8 and 10]	107,920,807	38,343,535
Tenant deposits	191,211	191,787
Prepaid rents [note 11]	8,790,993	8,965,792
Environmental costs [note 12]	47,624,566	47,791,206
Total liabilities	191,857,261	122,276,085
Shareholder's equity		
Share capital		
Authorized and issued		
1 common share	1	1
Surplus	8,097,111	14,239,832
Total shareholder's equity	8,097,112	14,239,833
	199,954,373	136,515,918

See accompanying notes

Approved on behalf of the Board:



Director



Director

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

**CONSOLIDATED STATEMENT OF OPERATIONS
AND SURPLUS**

Year ended December 31

	2009	2008
	\$	\$
REVENUE		
Rental income	9,229,596	8,303,221
Other income	226,458	43,080
Interest and investment income <i>[note 3]</i>	62,964	145,158
	<u>9,519,018</u>	<u>8,491,459</u>
EXPENSES		
Salaries and employee benefits <i>[note 13]</i>	3,167,445	4,149,436
Rental properties <i>[note 10]</i>	1,627,378	2,100,624
Professional fees	1,848,423	1,994,821
Office and services	275,155	533,335
Environmental monitoring	134,545	125,430
Office rent	272,707	228,024
Surveys, studies and marketing	159,930	408,559
Insurance	71,254	74,425
Bad debts (recovery)	(37,915)	478,102
Amortization	1,117,205	879,255
	<u>8,636,127</u>	<u>10,972,011</u>
Income (loss) from operations before the following	<u>882,891</u>	<u>(2,480,552)</u>
Other income (expense)		
Other income <i>[note 15]</i>	1,112,381	175,000
Loss on investment - TWSI	(902,768)	—
Tax increment equivalent grant	215,615	231,077
Gain on property held for sale <i>[note 14]</i>	9,151,160	144,465
Incubator program funding	(1,000,000)	(758,670)
Invest Toronto Inc. grant <i>[note 10]</i>	(898,400)	—
Interest	(159,840)	—
	<u>7,518,148</u>	<u>(208,128)</u>
Excess (deficiency) of revenue over expenses for the year	<u>8,401,039</u>	<u>(2,688,680)</u>
Surplus, beginning of year	14,239,832	16,928,512
Contributed surplus <i>[note 10[a][v]]</i>	1,180,415	—
Transfer of assets to BTHOI <i>[note 10[b][i]]</i>	(15,724,175)	—
Surplus, end of year	<u>8,097,111</u>	<u>14,239,832</u>

See accompanying notes

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses for the year	8,401,039	(2,688,680)
Add (deduct) non-cash items		
Amortization	1,117,205	879,255
Loss on investment - TWSI	902,768	—
Gain on sale of property held for sale	—	(144,465)
	<u>10,421,012</u>	<u>(1,953,890)</u>
Changes in non-cash working capital balances		
related to operations		
Investments	273,794	(773,794)
Accounts receivable	(1,385,020)	427,598
Prepaid expenses	(13,169)	(29,987)
Accounts payable and accrued liabilities	2,003,339	5,541,091
Deposit on property held for sale and		
property under development	(1,833,615)	—
Rent receivable	(13,433)	146,720
Deferred charges	260,475	(260,475)
Tenant deposits	(576)	(15,321)
Prepaid rents	1,396	1,566,760
Environmental costs	(166,640)	2,714,795
Cash provided by (used in) operating activities	<u>9,547,563</u>	<u>7,363,497</u>
FINANCING ACTIVITIES		
Increase in City of Toronto loans	69,577,272	38,343,535
Cash provided by financing activities	<u>69,577,272</u>	<u>38,343,535</u>
INVESTING ACTIVITIES		
Decrease in restricted investments	93,971	3,382,384
Increase in properties held for sale	(1,999,197)	(10,328,312)
Proceeds from sale of property held for sale and		
property under development	—	778,305
Decrease in deferred project costs	46,886	135,164
Increase in property under development	(73,255,278)	(30,493,023)
Purchase of investment in TWSI	(3,468,130)	—
Decrease (increase) in property and equipment	2,229,447	(8,075,158)
Cash used in investing activities	<u>(76,352,301)</u>	<u>(44,600,640)</u>
Net increase in cash during the year	2,772,534	1,106,392
Cash, beginning of year	2,001,468	895,076
Cash, end of year	<u>4,774,002</u>	<u>2,001,468</u>

See accompanying notes

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

1. INCORPORATION

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

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

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

On October 29 and 30, 2008, the City of Toronto Council ["City Council"] created two new corporations, Invest Toronto Inc. and Build Toronto Inc. As a result of the creation of these new corporations, the Corporation is to focus its operations on leasing and property management for port lands properties awaiting future development. The reorganization of the Corporation's assets, liabilities and operations is currently ongoing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Future accounting policy changes

In September 2009, the 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 ["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 GBTTO 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.

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

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.

Basis of consolidation

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

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

The subsidiaries are nominee corporations and were inactive throughout 2009. All intercompany balances and transactions between these subsidiaries and the Corporation have been eliminated.

Revenue recognition

Rental income is recognized on a straight-line basis over the life of the related lease agreement.

Investments and investment income

Investments recorded in the consolidated financial statements include short-term notes, bankers' acceptances and treasury bills, and are valued based on cost plus accrued income, which approximates fair value.

Transactions are recorded on a trade-date basis and transaction costs are expensed as incurred.

Investment income includes interest and realized and unrealized gains and losses. Investment income related to operations is accounted for in the consolidated statement of operations and surplus. Investment income earned on externally restricted funds, which are restricted for environmental liability, is credited directly to environmental costs on the consolidated balance sheet.

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

Financial instruments

The Corporation has designated its financial instruments as follows:

- Cash and cash equivalents as held for trading;
- Current and long-term investments as held for trading;
- Accounts receivable and rent receivable as loans and receivables;
- Mortgage receivable as loans and receivables;
- Accounts payable and accrued liabilities as other liabilities; and
- City of Toronto loans as other liabilities.

Cash and cash equivalents

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

Properties held for sale

Properties held for sale are valued at net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the properties and market conditions.

Deferred project costs

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

Property under development

Properties under development are stated at cost less impairment charges, if any. Cost includes initial acquisition costs, other direct costs of development and construction, allocation of directly attributable general and administrative expenses, property taxes, interest on both specific and general debt, and incidental operating revenues and expenses during the period of development.

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

Property and equipment

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

Buildings	20 years
Dock walls	25 years
Rail lines	25 years
Fencing	5 years
Furniture and equipment	5 years
Computer equipment	3 years
Parking lots	10 years
Leasehold improvements	Over the term of the lease
Land improvements	Lesser of the term of the lease and 40 years

Land improvements consist of various pre-acquisition costs, pre-development costs, initial leasing costs, tenant inducements and costs of other depreciable improvements in connection with land-improvement leases that are amortized over a period of the lesser of the term of the lease commencing on the date of occupancy by the tenant and 40 years.

Environmental costs

The Corporation includes in its liabilities the amount of any settlements made with existing or former tenants with respect to environmental remediation. Future costs related to environmental remediation, site preparation and consultants' fees and disbursements reduce this liability as they are incurred.

Environmental conditions on other properties that have been identified as being in non-compliance with environmental legislation, and where these costs can be reasonably determined, have been recorded in these consolidated financial statements.

The Corporation has not provided for any other amounts in respect of other potential remediation costs.

Employee benefits

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

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

Use of estimates

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

3. INVESTMENTS

Investments include bankers' acceptances and government securities with annual yields ranging from 0.15% to 3.06% [2008 - 1.3% to 3.0%] and maturity dates through November 2018 [2008 - through November 2018].

Restricted investments classified as long-term represent the assets held for environmental costs less funds authorized by City Council for other uses.

The Corporation has set aside negotiable securities for certain third parties amounting to \$10,000,000 [2008 - \$10,000,000], primarily related to possible defaults in lease agreements for certain construction projects. These are closely monitored and, to date, there have been no losses on these securities. Pursuant to an agreement to provide support to Medical and Related Science Discovery District ["MARS"] related to their facility in a heritage-designated building, the Corporation has set aside negotiable securities with a value of \$500,000 [2008 - \$500,000].

These restrictions have the effect of reducing the amount of unrestricted cash and investments available to the Corporation for its day-to-day operations.

Interest and investment income earned during the year is as follows:

	2009 \$	2008 \$
Interest and investment income	47,209	521,016
Interest income from loan receivable <i>[note 4]</i>	46,784	54,406
Total interest and investment income earned during the year	93,993	575,422
Less investment income directly allocated to environmental costs <i>[note 12]</i>	31,029	430,264
	62,964	145,158

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

4. LOAN RECEIVABLE

Loan receivable consists of the following:

	2009 \$	2008 \$
Advance to Harbour Remediation and Transfer with interest at 7.25%, repayable in blended monthly payments over 188 months from August 1, 1998	588,796	703,300
Less allowance for doubtful loans	(588,796)	(703,300)
	—	—
Less current portion	—	—
	—	—

During the year, the Corporation received payments of \$161,040 [2008 - \$161,040], which reduced the loan receivable and allowance for doubtful loans by \$114,504 [2008 - \$106,634]. Interest income of \$46,784 [2008 - \$54,406] was recorded in the consolidated statement of operations and surplus [note 3].

5. MORTGAGE RECEIVABLE

On October 19, 2009, having met a significant permit servicing requirement, the Corporation recognized the sale of land at Midland and St Clair. The sale and transfer of the land closed on January 31, 2008 for a purchase price of \$18,336,148. The Corporation gave the residential developer a vendor-take-back mortgage and has an ongoing obligation to complete the servicing. During 2009, deposits of \$4,584,037 were received. The mortgage is interest-free for the first nine months, commencing on October 19, 2009, the date compliance with permit servicing requirements was met. Interest on any outstanding amount will be calculated at prime plus 1% and paid quarterly from the "Interest Adjustment Date" [July 19, 2010]. The mortgage has been recorded based on the present value of future cash receipts discounted at a rate of prime plus 1% per annum. At May 31, 2010, all but two of the lots are scheduled to close by the end of 2010. As the vendor-take-back mortgage represents a non-cash item, this amount has been excluded from the consolidated statement of cash flows.

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

6. PROPERTY HELD FOR SALE

Property held for sale consists of the following:

	2009 \$	2008 \$
Project costs related to Midland and St. Clair residential lots	<u>176,798</u>	<u>10,535,083</u>

7. DEFERRED PROJECT COSTS

The continuity of deferred project costs is as follows:

	2009 \$	2008 \$
Balance, beginning of year	1,279,881	1,415,045
Development costs incurred during year	5,000,348	764,875
Project costs transferred to property held for sale [note 6]	(4,217,646)	(73,241)
Project costs transferred to land improvements [note 9]	—	(395,653)
Project costs expensed	(829,588)	(431,145)
Balance, end of year	<u>1,232,995</u>	<u>1,279,881</u>

8. PROPERTY UNDER DEVELOPMENT

The Corporation is constructing a 500,000 square foot office and broadcast facility located on the Queen Elizabeth Docks situated on Toronto's waterfront. The City, through Toronto Waterfront Revitalization Corporation ["TWRC"], has contributed \$12,500,000 towards parking and leading environmental and energy efficient design ["LEED"], of which \$9,000,000 [2008 - nil] has reduced property costs. The remaining \$3,500,000 received in 2007 has been included in deposits on property held for sale and property under development in the consolidated balance sheet and will reduce property costs when LEED certification is obtained.

The City has approved a construction loan facility to the Corporation of up to \$132,000,000 for the construction of the office and broadcast facility referred to above [note 10]. The Corporation has capitalized interest of \$3,587,642 [2008 - \$543,598] incurred on this loan facility in property under development on the consolidated balance sheet. The loan bears interest at 5% per annum, compounded monthly, and interest and principal will be paid at the end of the development period in 2010. As at December 31, 2009, \$101,197,408 [2008 - \$25,343,535] [note 10] has been advanced on this facility.

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

9. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	29,173,521	—	29,173,521
Land improvements	466,181	25,569	440,612
Buildings	12,357,831	7,896,666	4,461,165
Dock walls	387,802	200,561	187,241
Rail lines	273,466	140,601	132,865
Fencing	646,508	496,198	150,310
Furniture and equipment	191,749	138,872	52,877
Computer equipment	284,771	238,616	46,155
Parking lots	592,666	318,707	273,959
Leasehold improvements	228,434	228,434	—
	44,602,929	9,684,224	34,918,705

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	33,846,636	—	33,846,636
Land improvements	11,697,543	123,044	11,574,499
Buildings	12,544,757	7,306,843	5,237,914
Dock walls	387,802	185,049	202,753
Rail lines	273,466	129,663	143,803
Fencing	574,236	446,422	127,814
Furniture and equipment	180,443	109,378	71,065
Computer equipment	248,905	210,904	38,001
Parking lots	241,570	233,099	8,471
Leasehold improvements	228,434	228,434	—
	60,223,792	8,972,836	51,250,956

**City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

10. RELATED PARTY TRANSACTIONS

[a] City of Toronto

- [i] Included in accounts receivable are amounts due from the City of \$2,157,240 [2008 - \$2,106,247] for rent, hydro, securities, realty tax adjustments and the City's share of project study costs. Included in accounts payable and accrued liabilities are amounts due to the City of \$3,356,145 [2008 - \$5,846,997], which have arisen as a result of charges for realty taxes, hydro and office facilities. Amounts due to and from the City are subject to normal trade terms consistent with unrelated entities.
- [ii] Included in the City of Toronto loans is an amount of \$101,197,408 [2008 - \$25,343,535] advanced on the construction loan facility of \$132,000,000 approved by the City for the construction of the office and broadcast facility located on the Queen Elizabeth Docks situated on Toronto's waterfront.
- [iii] Also included in the City of Toronto loans is an amount of \$6,700,000 [2008 - nil] advanced on June 25, 2009 for the purpose of acquiring a 20% interest in Toronto Waterfront Studios Inc. [formerly Filmport Inc.] ["TWSI"]. This is a 10-year term loan and bears interest at 4% per annum.
- [iv] Included in rental properties expenses are realty taxes of \$3,412,326 [2008 - \$3,796,797] and hydro costs of \$543,992 [2008 - \$514,326], which comprise the significant transactions occurring during the year in the normal course of business with the City.
- [v] At the May 2009 meetings of City Council, the City approved the relief of the Corporation from its obligation to repay the City the agreed-upon exchange amount of \$13,000,000 for the Midland and St. Clair lands [16.56 acres]. As a result of the elimination of the obligation, the Corporation reduced the related land value of \$10,140,000 from properties held for sale, and \$2,860,000 from land, which is included in property and equipment.

The exchange amount of the land transferred was based on the net book value of \$1,180,415 and recorded as a charge to surplus. This revised land value was allocated based on acreage with respect to the three parcels of property identified as "Midland and St. Clair" lands.

**City of Toronto Economic Development Corporation c.o.b.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

[b] Build Toronto Inc.

[i] Transfer of assets

City Council declared specific City or the Corporation's properties as surplus to be transferred to Build Toronto Holdings One Inc. ["BTHOI"], a wholly owned subsidiary of Build Toronto Inc., whose parent company is the City, at a nominal value. On December 31, 2009, the Corporation transferred the shares, assignment of the lease, receivables and property associated with the Corporation's interest in TWSI at nominal value to BTHOI.

The Corporation adopted the recommendations of CICA 3840, "Related Party Transactions", and as a result, properties and related assets or liabilities transferred to BTHOI are recorded at their carrying amount or net book value with corresponding charges to surplus.

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

Asset transferred	Transfer price	Consideration	Charges to 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 accounts receivable. The transfer of these assets was non-cash in nature and therefore these items have been excluded from the consolidated statement of cash flows.

- [ii] The Corporation has advanced funds to Build Toronto Inc. of \$2,821,625 to be repaid in 2010. This amount is included in accounts receivable.

[c] Invest Toronto Inc.

- [i] The Corporation has provided a grant of \$898,400 to Invest Toronto Inc. to assist the company's operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

11. PREPAID RENTS

The Corporation receives prepaid rental payments from various tenants in the Port Area. Included in total prepaid rents is \$9,223,185 [2008 - \$9,140,406] received from the Toronto Hydro Electric Commission for two 99-year leases and St. Mary's Cement Corporation for a 20-year lease, \$8,790,993 [2008 - \$8,965,792] of which is long-term and \$432,192 [2008 - \$174,614] of which is current. These prepaid rents are amortized over the terms of the leases.

12. ENVIRONMENTAL COSTS

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

The recorded environmental costs liability consists of the following:

	2009 \$	2008 \$
Balance, beginning of year	46,841,839	44,127,044
Investment income <i>[note 3]</i>	31,029	430,264
Remediation costs incurred	(197,669)	(740,864)
Litigation settlement proceeds	—	3,025,395
Balance, end of year	46,675,199	46,841,839
Other contamination settlements	949,367	949,367
Total environmental costs liability	47,624,566	47,791,206

In prior years, the Corporation received land and cash consideration from a former tenant representing settlements for soil contamination. City Council directed the Corporation to hold these funds and all accumulated investment income in a fund for the environmental remediation of these properties once site redevelopment commences.

Prior to 2007, the Corporation also received \$949,367 from certain former tenants as settlement for the contamination resulting from their occupancy. In 2008, the Corporation settled with former tenants for the contamination resulting from their occupancy. These amounts are included in the environmental costs liability.

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

13. 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. The employees and employer 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 \$237,334 [2008 - \$194,460] and are included in salaries and employee benefits expense on the consolidated statement of operations and surplus.

14. GAIN ON PROPERTY HELD FOR SALE

On January 31, 2008, the Corporation sold 12.92 acres of the land at Midland and St. Clair to a residential developer for \$18,336,148. A crucial permit servicing condition was met on October 19, 2009 and the residential developer subdivided and achieved conditional sales of 105 of 107 of the lots in 2010. As a condition of the sale, the Corporation has an ongoing obligation to complete the servicing [as directed by the residential developer] of the lots sold with anticipated substantial completion expected in 2011. At the end of the year, 58% of the servicing budget [total estimated \$7,976,761] has been incurred. The value associated with the land sold was included in the costs [\$920,951]. Also, included in the cost of sales is a financing adjustment of \$287,276 to reflect the interest-free status of the vendor-take-back mortgage for the first nine months [note 5]. The net effect of the above is the recognition of a gain on sale of \$9,151,160.

There is a profit-sharing agreement which is not expected to yield a significant amount, the effect of which will be determined after the final lot is sold.

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15. OTHER INCOME

The Corporation received an amount of \$1,112,381 during the year from Ontario Power Generation Inc. ["OPG"]. \$160,000 of this represents compensation for the use of the Corporation's private road in the vicinity of Portlands Energy Centre, and \$952,381 represents payment received against the settlement agreement entered into by the two corporations in respect of water-taking rights by OPG.

16. FUTURE GRANT PAYMENTS AND COMMITMENTS

- [a] As at December 31, 2009, the Corporation has committed to make future payments totaling \$1,500,000 towards the City's incubator program which are scheduled for payment in 2010.
- [b] At its September 2007 meeting, City Council assumed the Corporation's future obligations of \$3,000,000 per year pursuant to the structured settlement agreement between the City, the Corporation and the Toronto Port Authority, effective January 1, 2008.
- [c] The Corporation has entered into an occupancy lease. Future minimum annual lease payments of \$183,994 are scheduled for payment only in 2010.
- [d] In 2007, the Corporation entered into a 20-year lease with the lead tenant of its 500,000 square foot office and broadcast facility [note 8]. The estimated cost of this facility is \$153,000,000 and completion and occupancy is expected in 2010. In addition, the Corporation has entered into a commission agreement with respect to this lease. Commissions of \$2,100,000 are due upon tenant occupancy.
- [e] Pursuant to the transaction where the Corporation made an investment in TWSI, it also guaranteed \$1,000,000 to TWSI's lender. Furthermore, there is a commitment to advance an additional \$1,000,000 in 2010, subject to certain conditions occurring.
- [f] The Corporation has a Project Management Agreement with a developer and is obligated to fund the costs to complete the servicing at the Midland and St. Clair site [note 14]. The cost expected to be incurred over the next three years is approximately \$3,414,000.

17. CONTINGENCIES

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

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[b] Accounts payable and accrued liabilities include \$2,406,839 [2008 - \$2,190,873] due to the City for realty taxes on various properties owned by the Corporation. The Corporation has a provision for \$3,414,023 in accrued liabilities for servicing costs to be incurred on the residential land project at Midland and St. Clair. The Corporation has also recorded a receivable of \$2,769,353 [2008 - \$2,769,353] from current and former tenants who ultimately bear the obligation for such realty taxes. Accounts receivable have been reduced by \$2,076,847 [2008 - \$2,076,847] as a provision against non-collectibility.

18. FINANCIAL INSTRUMENTS

[a] Fair value

The Corporation's financial instruments consist of cash, investments, accounts receivable, mortgage receivable, restricted cash and investments, rent receivable, accounts payable and accrued liabilities, deposits on property held for sale and property under development, City of Toronto loans and tenant deposits. Other than the mortgage receivable [note 5], these financial instruments are carried at cost, which approximates fair value.

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.

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As at December 31, 2009, the investments and restricted investments are classified as a Level 2 investment as they mainly consisted of short-term bankers' acceptances and deposits.

[b] Risk management

The Corporation's investment and operating activities expose it to a range of financial risks. These risks include credit risk, market risk, liquidity risk and interest rate 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.

Cash, investments, restricted cash and restricted investments consist of deposits with a major commercial bank. It is management's assessment that the credit risk associated with these balances is negligible.

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

[ii] Market risk

The Corporation is exposed to changes in electricity prices associated with the wholesale spot market for electricity in Ontario. The Corporation has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy-related purchase and sales contracts, through their participation in an agreement entered into by the City, that fixes a portion of the wholesale price over the term of the contract. One contract is outstanding at December 31, 2009 and expires on December 31, 2010. The contract is in a loss position at December 31, 2009; however, the Corporation's portion of this loss is nominal.

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[iii] Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has \$23,397,492 of trade accounts payable and accrued liabilities that are due within one year. The Corporation has cash, accounts receivable and mortgage receivable and a loan facility from the City that are sufficient to satisfy these liabilities.

[v] Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Corporation's interest rate exposure arises from its investments in bankers' acceptances and government securities [note 3]. The fixed-rate nature of these investments reduces the risk of interest rate fluctuations over the term of the investments and, therefore, a change in interest rates at the year-end would not impact income.

The fixed-rate nature of the City loans reduces the risk of interest rate fluctuations over the term of the outstanding debt. The Corporation accounts for the City loans at amortized cost and, therefore, a change in interest rates at the year-end would not impact income.

The mortgage receivable is not subject to interest rate risk as it is interest free for the first nine months and management expects to have collected a majority of the mortgage amount by the time the interest free period expires.

19. 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. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. The Corporation has a construction loan facility from the City of up to \$132,000,000 to finance payment of construction costs incurred for the office and broadcast facility referred to in notes 8 and 10. As at December 31, 2009, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.

20. COMPARATIVE FIGURES

Certain prior year comparative figures have been reclassified to conform with the current year's presentation.