

## Build Toronto Inc. – 2010 Audited Financial Statements

<b>Date:</b>	August 22, 2011
<b>To:</b>	Executive Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer

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### Disclosure of Financial Results:

Build Toronto Inc. (the Corporation) is one of the two wholly owned corporations created by City Council on October 29 and 30, 2008. A primary mandate of Build Toronto is to maximize the value and economic development potential of lands owned or managed by Build Toronto and act as a catalyst for the development of infrastructure and sustainable services in Toronto.

Section 6.7 of the Shareholder Direction requires the Corporation to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end. These documents are filed with the City Clerk's office. This report provides a summary of the audited 2010 consolidated financial statements of Build Toronto Inc. and its subsidiary Build Toronto Holdings One Inc. (BTHOI), which was incorporated on December 16, 2009, to hold the investment and related obligations in Toronto Waterfront Studios Inc. (TWSI).

### Financial Results

During 2010, the first full year of operation, certain assets earmarked for development or asset management formerly owned by Toronto Port Lands Company (TPLC) were transferred to Build Toronto. The Corporation completed its first sale of land previously owned by TTC at 154 Front Street East, generating net proceeds of \$18.8M.

The Corporation's financial plan anticipates that all operating and capital requirements of the Corporation will be funded using a combination of property sales, draws from the City's Land Acquisition Reserve Fund (\$10.0M, repayable – none to date), and new financings.

In 2009 a bridge loan of \$30.0M was negotiated with a financial intermediary for one of its income-generating properties, TWSI. The Corporation on May 28, 2010 arranged a \$29.0M short-term loan through Infrastructure Ontario to replace the bridge loan. Subsequent to the year end, on March 18, 2011, the Corporation further refinanced its loan with Infrastructure Ontario for \$34.5M with a term of 25 years at a preferable

(below market) rate of interest, providing access to an additional \$5.4M. The loan facility provided funding for the debt investment in TWSI that would enable the growth and viability of the film production and sound industry.

The 2009 financial statements were restated due to a change in the treatment of approximately \$2.3M which was previously expensed, and is now included in the carrying value of a loan and amortized into income over the remaining term of the loan using the effective interest rate method.

Balance Sheet:

The following table summarizes and compares the 2010 results with those of 2009:

**Build Toronto Inc.**  
**Summary Consolidated Balance Sheet**  
As at December 31, 2010

	\$Million		
	2010	2009 (restated)	Increase/ (Decrease)
Total Assets	69.864	46.998	22.865
Total Liabilities	45.470	33.636	11.834
Shareholder's Equity	24.394	13.363	11.031
Total Liabilities & Shareholder's Equity	69.864	46.998	22.865

Total assets (as at December 31) increased by \$22.9M, mainly due to:

- an increase of \$19.4M in cash and short term investments
- an increase of \$2.7M in amounts receivable, consisting mainly of \$1.5M in property taxes due from TWSI, \$0.6M rent receivable from TWSI and other receivables
- Project development costs of \$2.7M capitalized as an asset.

Total liabilities (as at December 31) increased by \$11.8M mainly due to:

- an increase of \$8.6M owing to Toronto Port Lands Company (TPLC) from the funds advanced by TPLC with no set term of repayment and no interest. Subsequent to the 2010 year end, the obligation was reduced by \$10.8M through the sale of properties. It is anticipated that the balance of the intercompany payable would be settled in a similar fashion towards the end of 2011 or in 2012.
- an increase of \$4.2M in accounts payable and accruals, offset by
- a decrease of \$1.0M in loan payable relating to refinancing activities.

Shareholder's Equity increased by \$11.0M, due to net income from current year activities. This is explained further in the section below.

Statement of Net and Comprehensive Income (Loss):

The following table summarizes and compares the 2010 results with those of 2009:

**Build Toronto Inc.**  
**Summary Consolidated Statement of Net and Comprehensive Income (Loss)**  
**and Retained Earnings (Deficit)**

For the year ended December 31, 2010

	\$Million		
	2010	2009 (restated)	Increase/ (Decrease)
<b>Revenues:</b>			
Land sale	18.785	0.000	18.785
Rental and interest income	3.051	0.003	3.048
<b>Total revenues</b>	<b>21.836</b>	<b>0.003</b>	<b>21.833</b>
<b>Expenses:</b>			
General & administrative	6.039	2.033	4.006
Property taxes	1.529	0.000	1.529
Interest	1.022	0.000	1.022
Other	2.214	0.313	1.901
<b>Total expenses</b>	<b>10.805</b>	<b>2.346</b>	<b>8.459</b>
<b>Net income and comprehensive income(loss) for the year</b>	<b>11.031</b>	<b>(2.343)</b>	<b>13.374</b>
<b>Deficit - Beginning of year</b>	<b>(2.362)</b>	<b>(0.019)</b>	<b>(2.343)</b>
<b>Retained earnings (deficit) - End of year</b>	<b>8.670</b>	<b>(2.362)</b>	<b>11.031</b>

In 2010 the Corporation recorded an excess of revenues over expenditures of \$11.0M. Total revenues increased by \$21.8M, mainly due to:

- \$18.8M in land sale proceeds relating to 154 Front Street East previously owned by the TTC and subsequently transferred to the Corporation for a nominal amount
- an increase of \$3.0M in rental and interest income.

Total expenses increased by \$8.5M, mainly due to:

- an increase of \$4.0M in general and administrative costs, including an increase of \$3.3M in salaries and benefits (2010: \$4.7M, 2009: \$1.4M) as they pertained to the full year of operation in 2010 but only part of the start up year in 2009
- property taxes of \$1.5M
- interest expense of \$1.0M

- depreciation and amortization, loss on equity accounted investment (due to a 2010 operating loss of TWSI in which Build Toronto has 20% equity interest) and others totalling \$1.9M.

Net income for the year was \$11.0M resulting from total revenues of \$21.8M exceeding total expenses of \$10.8M, compared to a loss of \$2.3M in 2009. Retained earnings at the end of the year were \$8.7M, as the net income was reduced by the deficit of \$2.4M at the beginning of the year.

## CONTACT

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## SIGNATURE



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Cam Weldon  
Deputy City Manager and Chief Financial Officer

## ATTACHMENT

Appendix A – 2010 Audited Consolidated Financial Statements of Build Toronto Inc.

**Build Toronto Inc.**

Consolidated Financial Statements  
December 31, 2010

July 21, 2011

## Independent Auditor's Report

To the Shareholder of  
Build Toronto Inc.

We have audited the accompanying consolidated financial statements of Build Toronto Inc. and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of net and comprehensive income (loss) and retained earnings (deficit) 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. and its subsidiary as at December 31, 2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Other matter**

Without modifying our opinion, we draw attention to note 3 to the consolidated financial statements, which explains that certain comparative information for the year ended and as at December 31, 2009 has been restated. The consolidated financial statements as at December 31, 2009 and for the year then ended, prior to restatement of the comparative information, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in their report dated May 11, 2010.

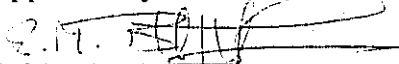
*PricewaterhouseCoopers LLP*

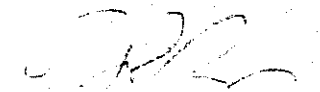
Chartered Accountants, Licensed Public Accountants

**Build Toronto Inc.**  
 Consolidated Balance Sheet  
 As at December 31, 2010

	2010 \$	2009 \$ (restated - note 3)
<b>Assets</b>		
Land and land improvements (note 7)	12,865,677	13,158,812
Project development costs	2,656,286	-
Equity accounted investment (note 5)	2,361,985	3,165,364
Office equipment and leasehold improvements (note 10)	1,191,912	126,062
Loan receivable (notes 5 and 9)	27,615,179	29,221,553
Short-term investments (note 8)	17,800,037	-
Amounts receivable (notes 6 and 9)	3,637,265	919,229
Prepaid expenses	63,202	287,226
Cash	1,672,027	120,072
	<u>69,863,570</u>	<u>46,998,318</u>
<b>Liabilities</b>		
Loan payable (note 12)	29,000,000	30,000,000
Due to related party (note 9)	12,242,072	3,558,086
Amounts payable and accrued liabilities (note 11)	4,227,473	77,632
	<u>45,469,545</u>	<u>33,635,718</u>
<b>Shareholder's Equity</b>		
Capital stock		
Authorized and issued 1 common share	1	1
Contributed surplus	15,724,175	15,724,175
Retained earnings (deficit)	8,669,849	(2,361,576)
	<u>24,394,025</u>	<u>13,362,600</u>
	<u>69,863,570</u>	<u>46,998,318</u>
<b>Commitments (note 15)</b>		

Approved by the Board of Directors

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

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



## Build Toronto Inc.

Consolidated Statement of Net and Comprehensive Income (Loss) and  
Retained Earnings (Deficit)  
For the year ended December 31, 2010

	2010 \$	2009 \$ (restated - note 3)
<b>Revenues</b>		
Land sale (note 4)	18,785,388	-
Rental income		
Land (note 9)	2,051,494	1,500
Other (note 9)	79,033	1,500
Interest income (note 5)	920,374	-
	<u>21,836,289</u>	<u>3,000</u>
<b>Expenses</b>		
Rental properties	61,794	13,758
General and administrative (note 14)	6,038,929	2,032,904
Property taxes	1,529,395	-
Depreciation and amortization	463,070	-
Project development costs	785,935	299,110
Interest	1,022,362	-
Loss on equity accounted investment (note 5)	903,379	-
	<u>10,804,864</u>	<u>2,345,772</u>
Net income and comprehensive income (loss) for the year	11,031,425	(2,342,772)
Deficit - Beginning of year	(2,361,576)	(18,804)
Retained earnings (deficit) - End of year	<u>8,669,849</u>	<u>(2,361,576)</u>

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

# Build Toronto Inc.

## Consolidated Statement of Cash Flows For the year ended December 31, 2010

	2010 \$	2009 \$ (restated - note 3)
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income and comprehensive income (loss) for the year	11,031,425	(2,342,772)
Items not affecting cash		
Loss on equity accounted investment	903,379	-
Depreciation and amortization	463,070	-
Amortization of loan receivable premium	262,828	-
Changes in non-cash operating working capital		
Amounts receivable	(2,718,036)	(782,768)
Prepaid expenses	224,024	(287,226)
Accounts payable and accrued liabilities	3,454,007	77,632
Due to related party	8,683,986	2,802,821
	<u>22,304,683</u>	<u>(532,313)</u>
<b>Investing activities</b>		
Project development costs	(1,960,452)	-
Purchase of office equipment and leasehold improvements	(1,235,785)	(126,062)
Advance to equity accounted investment	(100,000)	-
Repayment (purchase) of loans receivable	1,343,546	(29,221,553)
Purchase of short-term investments	(17,800,037)	-
	<u>(19,752,728)</u>	<u>(29,347,615)</u>
<b>Financing activities</b>		
Repayment of loan payable	(30,000,000)	-
Proceeds from loans payable	29,000,000	30,000,000
	<u>(1,000,000)</u>	<u>30,000,000</u>
<b>Increase in cash during the year</b>	1,551,955	120,072
<b>Cash - Beginning of year</b>	120,072	-
<b>Cash - End of year</b>	<u>1,672,027</u>	<u>120,072</u>
<b>Supplementary cash flow information</b>		
Interest paid	681,496	-
Accrued project development costs	695,834	-

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

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2010

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### 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.

#### Future accounting policy changes

In September 2009, the Public Sector Accounting Standards Board approved an amendment to the Introduction to Public Sector Accounting Standards. Under the amendment, government business enterprises will adhere to standards for publicly accountable profit oriented enterprises, meaning the adoption of International Financial Reporting Standards (IFRS), for fiscal years 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. The Corporation has been identified as an OGO and accordingly must determine the appropriate financial reporting framework between Public Sector Accounting Standards or IFRS. Management is currently evaluating the criteria applicable to the Corporation's business to determine the appropriate financial reporting framework, and an assessment of the impact on the Corporation's financial reporting.

#### Financial instruments

The following table presents the classification of financial instruments:

Assets	Category	Measurement
Cash	held-for-trading	fair value
Short-term investments	held-to-maturity	amortized cost
Amounts receivable	loans and receivables	amortized cost
Loan receivable	loans and receivables	amortized cost
Amounts payable and accrued liabilities	other liabilities	amortized cost
Due to related party	other liabilities	amortized cost
Loan payable	other liabilities	amortized cost

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2010

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### Short-term investments

Short-term investments include investments with original maturities of one year or less and are recorded at cost plus accrued investment income, which approximates fair value.

### Equity accounted investment

The Corporation's equity accounted investment is accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Corporation's share of the entity's net income (loss). Any distributions received are accounted for as a reduction in the investment.

### Revenue recognition

Revenue from the sale of properties is recognized once all significant conditions have been met and collection of proceeds from the sale is reasonably assured.

Rental income represents revenue from land lease and ancillary revenue. The Corporation uses the straight-line method of accounting for free rent inducements granted in lease agreements.

### Land and land improvements

Land and land improvements are recorded at cost less any impairment loss. An impairment loss is recognized when the carrying amount of the asset is not recoverable from the estimated undiscounted future cash flow generated from its use and disposition. An impairment loss represents the difference between the asset's carrying value and its estimated fair value. Any impairment loss is recorded in the consolidated statement of net income and comprehensive income (loss):

Land improvements are recorded net of accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the land improvements, which is 40 years.

The costs of land and land improvements include all expenditures incurred in connection with the activities of acquiring, developing, leasing and constructing. These expenditures consist of all direct costs including initial leasing costs.

### Project development costs

Project development costs consist of direct costs of development relating to the commercial development of land owned by the Corporation or properties designated and approved for transfer to the Corporation by the City. Project development costs are transferred to properties under development upon commencement of the project or to properties held-for-sale where the Corporation's intent is to dispose of the developed property. For projects that are abandoned, any costs incurred are immediately expensed.

### 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, 2010

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### Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost. Amortization is provided on a basis designed to amortize the costs of the assets over their expected useful lives as follows:

Leasehold improvements	straight-line over the term of the lease
Furniture and fixtures	5 years straight-line
Computer equipment	3 years straight-line

The Corporation reviews the valuation of office equipment and leasehold improvements whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When indicators of impairment of the carrying value of office equipment and leasehold improvements exist, and the carrying value is greater than the projected undiscounted future net cash flows, an impairment loss is recognized to the extent the estimated fair value is below the carrying value.

### Office occupancy costs, deferred lease inducements and deferred lease escalations

The Corporation entered into an operating lease to occupy its current head office premises. Rent expense is recorded in office occupancy costs on a straight-line basis over the term of the lease. Differences between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in deferred lease escalations. Deferred lease inducements represent cash benefits the Corporation has received from its landlord pursuant to the lease agreement. Lease inducements received are amortized into office occupancy costs over the term of the related lease on a straight-line basis.

### 3 Restatement

In the prior year, a premium in the amount of \$2,299,752 paid to a financial intermediary to acquire the loan receivable was expensed. It has subsequently been determined that this amount should have been included in the carrying value of the loan and amortized into income over the remaining term of the loan using the effective interest rate method. The consolidated financial statements for December 31, 2009 have therefore been restated as follows:

# Build Toronto Inc.

Notes to Consolidated Financial Statements  
December 31, 2010

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	As reported December 31, 2009 \$	Adjustments \$	As restated December 31, 2009 \$
Consolidated balance sheet			
Loan receivable	26,921,801	2,299,752	29,221,553
Deficit	(4,661,328)	2,299,752	(2,361,576)
Consolidated statement of net income and comprehensive income (loss) and retained earnings (deficit)			
Transaction costs	2,299,752	(2,299,752)	-
Net income and comprehensive income (loss) for the year	(4,642,524)	2,299,752	(2,342,772)
Retained earnings (deficit) - End of year	(4,661,328)	2,299,752	(2,361,576)
Consolidated statement of cash flows			
Net income and comprehensive income (loss) for the year	(4,642,524)	2,299,752	(2,342,772)
Purchase of loans receivable	(26,921,801)	(2,299,752)	(29,221,553)

## 4 Land sale

In 2010, the Toronto Transit Commission transferred land to the Corporation for a nominal amount. This land was subsequently sold by the Corporation for \$18,785,388.

## 5 Toronto Waterfront Studios Inc.

The Corporation holds a 20% equity interest in TWSI. The investment is accounted for using the equity method.

### Transfer of assets

In 2009, the Corporation acquired shares that represent a 20% equity interest in TWSI as well as the lands and land improvements currently leased by the Corporation to TWSI when City Council declared specific City of Toronto Economic Development Corporation (operating as the Toronto Port Lands Company or TPLC) properties and other City owned properties as surplus to be transferred to the Corporation or its subsidiary. The Corporation adopted the recommendations of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3840, Related Party Transactions and as a result properties and related assets or liabilities transferred to the Corporation were recorded at their carrying amount or net book value with the corresponding increase recorded in contributed surplus.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2010

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

Asset transferred	Transfer price \$	Consideration \$	Contributed surplus \$
Investment in shares	2,565,368	5	2,565,363
Land and land improvements	13,158,817	5	13,158,812
Loan receivable	600,001	600,001	-
Straight-line rent receivable	136,461	136,461	-
	<u>16,460,647</u>	<u>736,472</u>	<u>15,724,175</u>

The assigned ground lease with TWSI for the land is for a term of 99 years and was originally executed on August 25, 2005.

The consideration for the loan receivable and straight-line rent receivable are included in amounts due to TPLC as at December 31, 2010.

### Equity accounted investment

For the year ended December 31, 2010, TWSI reported the following financial position and results from operations:

	\$
Assets	50,316,014
Liabilities	37,697,648
Equity	12,618,366
Revenue	5,506,034
Expenses	<u>10,022,929</u>
Net loss for the year	<u>(4,516,895)</u>

The Corporation's share of the losses from TWSI for fiscal 2010 at its 20% equity share is \$903,379 (2009 - \$nil).

The equity accounted investment as at December 31, 2010 included the following:

	2010 \$	2009 \$
Investment in shares	2,565,363	2,565,363
Advances	<u>700,001</u>	<u>600,001</u>
	3,265,364	3,165,364
Accumulated losses	<u>(903,379)</u>	<u>-</u>
	<u>2,361,985</u>	<u>3,165,364</u>

# Build Toronto Inc.

## Notes to Consolidated Financial Statements December 31, 2010

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The equity investment amount also includes \$700,001 advanced to TWSI, of which \$600,001 was originally funded by TPLC and was transferred to the Corporation as part of the transfer of assets. This amount was advanced as a shareholder's working capital contribution. The rate of interest and the repayment for this advance is subject to the approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the year.

### Loans receivable

In 2009, BTHOI acquired a loan receivable with a principal balance outstanding of \$26,921,802 owing from TWSI from a financial intermediary who had originally lent the funds to TWSI. To acquire the loan receivable, the Corporation paid a premium of \$2,299,752. The Corporation financed the loan receivable with funds borrowed from a financial institution and refinanced this loan payable in fiscal 2010 with funding from a government agency.

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

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

The Corporation completed its renegotiation of the terms of the loan receivable with TWSI on March 18, 2011. The terms of the new loan receivable facility match the terms of the new facility with the government agency described in note 12. The Corporation did, however, withhold funds to the extent of the transaction costs incurred in fiscal 2009 (note 3), which TWSI has agreed to reimburse the Corporation over the 28-year term of the loan receivable.

In addition, as part of the financing arrangement with PT Studios Inc., TPLC and the Corporation have entered into a promissory note for approximately \$3.6 million, in May 2011, in favour of BTHOI, a wholly owned subsidiary of the Corporation. The loan bears interest at 6% per annum and interest is calculated and payable in arrears annually with the first payment of interest due June 23, 2011; maturity is on June 23, 2014.



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2010

### 6 Amounts receivable

Amounts receivable consist of the following:

	2010 \$	2009 \$
Property taxes due from TWSI	1,529,395	-
Amount held in escrow	-	654,207
Loan interest due from TWSI	273,057	128,561
Tenant inducement - due from landlord	565,000	-
HST receivable	379,803	-
Straight-line rent receivable (i)	395,018	136,461
Financing cost recoverable	343,602	-
Other receivables	151,390	-
	<u>3,637,265</u>	<u>919,229</u>

- i) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and PT Studios Inc. (as tenant), TWSI was 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.

### 7 Land and land improvements

Land and land improvements consist of the following:

	2010 \$	2009 \$
Land	2,019,688	2,019,688
Land improvements	11,139,124	11,139,124
	<u>13,158,812</u>	<u>13,158,812</u>
Less: Accumulated amortization	(293,135)	-
	<u>12,865,677</u>	<u>13,158,812</u>

### 8 Short-term investments

	2010 \$	2009 \$
Guaranteed investment certificates - various maturities within one year	<u>17,800,037</u>	-

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2010

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### 9 Related party transactions

Included in amounts receivable is an amount of \$61,912 (2009 - \$12,929) due from Invest Toronto Inc., an affiliated company, and \$2,228,634 due from PT Studios, a wholly owned subsidiary of TWSI. The transactions with the related parties that are in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Rental income includes an amount of \$571,158 recognized as land and licence rent from PT Studios as well as \$1,529,395 in receivable property taxes.

All other related party transactions with TWSI or its subsidiaries have been described in note 5 and note 6.

Due to related parties includes an unsecured amount of \$12,242,072 (2009 - \$3,558,086) owing to TPLC, an affiliated company. There is no set term of repayment of this amount and no interest is being charged by TPLC.

### 10 Office equipment and leasehold improvements

	2010	2009
	\$	\$
Leasehold improvements	801,595	-
Furniture and fixtures	453,019	-
Computer equipment	107,233	-
Construction-in-progress	-	126,062
	<hr/>	<hr/>
	1,361,847	126,062
Less: Accumulated amortization	(169,935)	-
	<hr/>	<hr/>
	1,191,912	126,062

### 11 Amounts payable and accrued liabilities

Amounts payable and accrued liabilities consist of the following:

	2010	2009
	\$	\$
Deferred lease inducement	519,435	-
Deferred lease escalations	97,964	-
Accounts payable and accrued liabilities	3,610,074	77,632
	<hr/>	<hr/>
	4,227,473	77,632

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

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### 12 Loan payable

On December 31, 2009, the Corporation entered into an interest only bridge loan of \$30,000,000 with a Canadian financial institution expiring on May 31, 2010 bearing interest at prime. The loan was secured by the Corporation's properties.

On May 28, 2010, the Corporation refinanced its loan payable by entering into an interest only bridge loan of \$29,000,000 with a government agency, which matures on May 28, 2011 and bears interest at prime. The loan is secured by various assets of BTHOI and corporate guarantees of BTHOI and the Corporation.

On March 18, 2011, the Corporation refinanced its loan payable with a government agency. The new facility is for \$34,500,000 of which \$29,080,508 replaces the bridge loan that was provided by the same government agency, and an additional \$5,419,492 is available to be drawn. The new facility bears interest at 1.95% reset monthly to the government agency's borrowing rate until the rate is fixed after three years based on the agency's funding model. The first three years of the facility require only interest payments. As such, the principal portion of the loan will be repaid over 25 years. The Corporation has the ability to fix the interest rate on the new facility within the first three years of its term.

### 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. 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 2010, which were expensed, totalled \$299,605 (2009 - \$28,520) and are included in salaries and benefits expense.

### 14 General and administrative costs

General and administrative costs consist of the following:

	2010	2009
	\$	\$
Salaries and benefits	4,679,559	1,359,704
Office services	390,782	75,257
Office occupancy costs	303,418	28,755
Professional fees	458,474	539,228
Marketing and promotion	206,696	29,960
	<u>6,038,929</u>	<u>2,032,904</u>

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

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### 15 Commitments

- a) Future minimum annual lease payments are as follows:

	\$
2011	282,500
2012	282,500
2013	282,500
2014	282,500
2015	296,625
Thereafter	<u>1,398,375</u>
	<u>2,825,000</u>

- b) The Corporation, through its subsidiary, is required to advance working capital requests from PT Studios Inc. in the amount of \$160,000 due at various times through 2011.

### 16 Financial instruments

#### Fair value

The Corporation's financial instruments consist of cash, short-term investments, amounts receivable, loan receivable, advances to TWSI, accounts payable and accrued liabilities, due to related party and loan payable. With the exception of cash, all other financial instruments are recorded at cost or amortized 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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

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- 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, 2010, cash of \$1,672,027 (2009 - \$120,072) is classified as a Level 1 category.

### Risk management

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

- Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligation to the Corporation. The total carrying value 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 tenants. 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. No allowance for doubtful accounts was recorded as at December 31, 2010 and 2009.

The loans receivable are collateralized by a leasehold mortgage and \$5,000,000 in guarantees from the shareholders of TWSI, and \$9,000,000 is guaranteed by TPLC. As such, in the event of default, the Corporation can take title and liquidate the assets of TWSI and enforce the guarantees.

The cash deposit is held by a Schedule I Canadian financial institution, which management believes is reputable. Management believes the Corporation's exposure to credit risk is low.

- Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. Management believes the Corporation's exposure to liquidity risk is low. As at December 31, 2010, all obligations of the Corporation, with the exception of certain amounts due to TPLC, are due within one year.

- Interest rate risk

Interest rate risk is borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk through its floating loan payable, whose interest rate is based on prime, and its cash balances. As at December 31, 2010, 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 \$197,000.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

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### Currency risk

Virtually all of the Corporation's transactions are denominated in Canadian dollars. As at December 31, 2010, the Corporation held no financial instruments that were denominated in other than Canadian currency.

### 17 Capital management

In managing capital, the Corporation focuses on liquid resources, defined as cash and short-term investments, available to fund its 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 Corporation does not have any externally imposed capital requirements.

### 18 Comparative figures

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

### 19 Subsequent events

In 2008, two parcels of land were designated by the City to be transferred to the Corporation. During 2010, the properties were sold by TPLC and the net proceeds of \$10,800,000 were authorized by the TPLC Board of Directors to be transferred in April 2011 as a payment in lieu and to be recorded as a reduction of the amount due to related party (note 9). The Corporation will record an increase in contributed surplus in 2011.