Toronto Port Lands Company – 2010 Audited Financial Statements

Date:	August 23, 2011
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

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Disclosure of Financial Results:

Toronto City Council is the sole shareholder of Toronto Economic Development Corporation (TEDCO), which is now operating as Toronto Port Lands Company (TPLC) as per City Council's direction in August 2009.

The largest property owner in the Port Lands, TPLC's primary business is to manage and lease over 162 hectares of property while providing environmental stewardship and direction for redevelopment in the port land area.

Section 8.3 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 which is December 31st. These documents are filed with the City Clerk's office. This report provides a summary of the Audited 2010 Financial Statements.

Financial Results

The 2010 financial highlights include:

- new rental revenue from the Corus Quay development, the first commercial development on East Bayfront
- increase of $17.3M in operating revenues mainly from property rental (including those from Corus Quay) and gain on sale of properties
- net income of $5.0M and corresponding increase in Shareholder's Equity
- financial support totalling $4.4M provided to Invest Toronto Inc. and the Incubator Program at the City's Economic Development and Culture Division.

TPLC's financial statements reflect funding relationships and transactions with related parties including the City of Toronto, Build Toronto Inc., and Invest Toronto Inc., which are summarized as follows:

City of Toronto:

- The City issued a $27.6M loan in 2010 under a construction loan facility for TPLC of up to $132.0M for the Corus Quay development. The amount of loan advanced including accrued interest was $128.5M at 2010 year-end (2009: $101.2M)
- The City also advanced $7.0M to TPLC (in June 2009 as a ten-year loan bearing interest at 4% per annum) for the purpose of acquiring 20% interest in Toronto Waterfront Studios Inc. (TWSI)
- TPLC provided $1.5M in incubator program funding to the City in 2010 (2009: $1.0M)

Build Toronto Inc.:

- As part of financial support for Build Toronto, TPLC advanced a loan to Build Toronto of $12.2M as at 2010 year-end (2009: $3.6M). There are no set terms of repayment and no interest charged

Invest Toronto Inc.:

- As part of a five-year commitment to provide funding to Invest Toronto up to a specified funding maximum, TPLC in 2010 provided a grant of $2.8M (2009: $898,390) to fund its operating and capital expenditures.

The 2009 financial statements were restated due to an accounting policy change with respect to the recognition of the environmental liability associated with lands in the port area with varying degrees of contamination. The net effect on the 2009 Retained Earnings is an increase of $31.7M. Please refer to note 3 of the consolidated financial statements in Appendix A for a full description of the restatement.

Consolidated Balance Sheet:

The following table summarises the Corporation's Consolidated Balance Sheet as at December 31, 2010 and compares it with that at December 31, 2009:

Toronto Port Lands Company
Summary Balance Sheet
As at December 31

$Million

	2010	2009 (restated)	Increase/ (Decrease)
Assets:			
Current assets	44.911	31.999	12.912
Other assets	167.550	151.989	15.561
Total assets	**212.461**	**183.988**	28.473
Liabilities:			
Current liabilities	23.322	27.330	(4.008)
Long term liabilities	144.362	116.903	27.459
Total liabilities	**167.683**	**144.233**	23.451
Shareholder's equity	**44.778**	**39.755**	5.023
Total liabilities & shareholder's equity	**212.461**	**183.988**	28.473

Total assets as at December 31, 2010 increased by $28.5M mainly due to increased City investment and net income. The increase is reflected in the following key items:

- a $13.2M increase in cash and short-term investments
- a $8.4M increase in advance receivable from Build Toronto Inc.
- a $2.6M net increase in receivables.

Total liabilities as at December 31, 2010 increased by $23.5M mainly due to:

- a $27.6M increase in loan payable to the City of Toronto related to the construction loan facility of up to $132.0M for the Corus Quay development, offset by
- a $3.8M decrease in accounts payable and accrued liabilities.

Shareholder's equity increased by $5.0M as a result of current year net income.

Statement of Net and Comprehensive Income:

The table below summarizes and compares the results for the years 2010 and 2009:

Toronto Port Lands Company
Summary Statement of Net and Comprehensive Income (Loss)
For the year ended December 31
$Million

	2010	2009 (restated)	Increase/ (Decrease)
Operating revenue	30.705	13.455	17.250
Operating expense	17.897	12.739	5.158
Net operating income	**12.808**	**0.716**	12.092
Other income/(expense)			
Other income	0.445	1.112	(0.667)
Loss on investment - TWSI	0.000	(0.903)	0.903
Tax increment equivalent grant	0.201	0.216	(0.015)
Gain on sale of property	1.623	9.151	(7.528)
Incubator program funding	(1.500)	(1.000)	(0.500)
Invest Toronto Inc. grant	(2.756)	(0.898)	(1.857)
Interest	(5.799)	(0.160)	(5.639)
Other income/ (expense)	(7.785)	**7.518**	**(15.304)**
Net and comprehensive income (loss) for the year	**5.023**	**8.234**	(3.212)
Retained earnings – beginning of year	39.755	**46.065**	**(6.309)**
Contributed Surplus	0.000	1.180	(1.180)
Transfer of assets to BTHOI	0.000	(15.724)	15.724
Retained earnings – end of year	**44.778**	**39.755**	**5.023**

Net operating income:

- The net 2010 operating income was $12.8M, resulting from $30.7M in operating revenue offset by $17.9M in operating expense
- Almost 97% (or $29.7M) of the $30.7M total operating revenue arose from rental revenues including those from the Corus Quay development. This represented an increase of $17.3M over the 2009 operating revenue
- The $17.9M in 2010 operating expense comprised mainly $10.4M in rental property expense (such as property tax, hydro and project serving costs), $1.6M in salaries and benefits, and $4.2M in amortization costs. This represented an increase of $5.2M over 2009.

Other income / (expense):
The total 2010 other expense was $7.8M. This is mainly made up of:

- $5.8M in interest expense on the City of Toronto loan
- $2.8M in grant payment to Invest Toronto Inc. as described above

offset by:

- $1.6M gain on sale of properties (including $750,000 and $873,226 from two separate transactions relating to the development projects at Midland Avenue and St. Clair Avenue East in East Toronto)
- $0.4M from the Ministry of Environment for reimbursement and legal settlement of remediation costs
- $0.2M in tax increment equivalent grant from the City.

Net income for 2010 was $5.0M resulting from a net operating income of $12.8M offset by a net other expense of $7.8M. This leads to an increase of $5.0M in retained earnings from an opening value of $39.8M to a closing value of $44.8M.

CONTACT

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SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer

ATTACHMENT

Appendix A – 2010 Audited Consolidated Financial Statements of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company

Appendix A

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

Consolidated Financial Statements
December 31, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
North American Centre
5700 Yonge Street, Suite 1900
North York, Ontario
Canada M2M 4K7
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August 23, 2011

Independent Auditor's Report

To the Shareholder of
City of Toronto Economic Development Corporation c.o.b.
Toronto Port Lands Company

We have audited the accompanying consolidated financial statements of City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company, and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of net and comprehensive income and retained earnings 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.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company and its subsidiaries 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 as at and for the year ended 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 unqualified opinion on those consolidated financial statements in their report dated May 4, 2010.

PricewaterhouseCoopers LLP

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, 2010

	2010 $	2009 $ (restated - note 3)
Assets		
Current assets		
Cash and cash equivalents	17,926,549	4,774,002
Investments (note 4)	4,939,517	500,000
Amounts receivable (note 12)	21,457,425	13,017,269
Prepaid expenses	110,909	66,210
Mortgage receivable (note 7)	476,734	13,464,834
Properties held for sale (note 7)	-	176,798
	44,911,134	31,999,113
Restricted cash and investments (note 4)	9,293,334	10,254,564
Straight-line rent receivable	3,552,199	128,354
Deferred leasing costs (note 9)	5,024,796	2,357,420
Project development costs (note 8)	1,401,274	1,222,911
Property under development (note 10)	-	119,073,306
Property and equipment (note 11)	148,278,473	18,952,277
	212,461,210	183,987,945

Approved by the Board of Directors

Director — Bruce Bowes

Director — Mike Williams

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Balance Sheet ...*continued*
As at December 31, 2010

	2010 $	2009 $ (restated - note 3)
Liabilities		
Current liabilities		
Amounts payable and accrued liabilities (note 12)	19,547,685	23,397,492
Deposit on property (note 10)	3,500,000	3,500,000
Prepaid rents (note 13)	274,171	432,192
	23,321,856	27,329,684
City of Toronto loans (notes 10 and 12)	135,500,930	107,920,807
Tenant deposits	244,470	191,211
Prepaid rents (note 13)	8,616,195	8,790,993
	167,683,451	144,232,695
Shareholder's Equity		
Share capital		
Authorized and issued		
1 common share	1	1
Retained earnings	44,777,758	39,755,249
	44,777,759	39,755,250
	212,461,210	183,987,945

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Statement of Net and Comprehensive Income and Retained Earnings
For the year ended December 31, 2010

	2010 $	2009 $ (restated - note 3)
Revenue		
Rental income	29,735,894	13,134,574
Other income	515,485	226,458
Interest and investment income (note 4)	453,820	93,993
	30,705,199	13,455,025
Expenses		
Salaries and employee benefits (note 14)	1,622,498	3,167,445
Rental properties (note 12)	10,397,381	5,730,025
Professional fees	480,114	1,848,423
Office and services	163,922	275,155
Environmental monitoring	211,729	134,545
Office rent	142,609	272,707
Surveys, studies and marketing	109,239	159,930
Insurance	80,352	71,254
Bad debts (recovery)	489,646	(37,915)
Amortization of property and equipment	4,199,771	1,117,205
	17,897,261	12,738,774
Earnings before the undernoted items	12,807,938	716,251
Other income (expense)		
Other income (note 15)	445,052	1,112,381
Loss on investment - TWSI	-	(902,768)
Tax increment equivalent grant	201,036	215,615
Gain on sale of property (note 7)	1,623,266	9,151,160
Incubator program funding	(1,500,000)	(1,000,000)
Invest Toronto Inc. grant (note 12)	(2,755,611)	(898,400)
Interest	(5,799,172)	(159,840)
	(7,785,429)	7,518,148
Net and comprehensive income for the year	5,022,509	8,234,399
Retained earnings - Beginning of year	39,755,249	46,064,610
Contributed surplus (note 12(a)(v))	-	1,180,415
Transfer of assets to BTHOI (note 12(b)(i))	-	(15,724,175)
Retained earnings - End of year	44,777,758	39,755,249

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2010

	2010 $	2009 $ (restated - note 3)
Cash provided by (used in)		
Operating activities		
Net and comprehensive income for the year	5,022,509	8,234,399
Add (deduct): Non-cash items		
Amortization of property and equipment	4,199,771	1,117,205
Loss on investment - TWSI	-	902,768
Gain on sale of property held for sale	(1,623,266)	-
Prepaid rents recognized	(332,819)	1,396
Straight-line rent receivable	(3,423,845)	(13,433)
Accrued interest on City of Toronto loans	2,491,200	3,587,642
Accrued interest income	(287,189)	-
	6,046,361	13,829,977
Changes in non-cash working capital balances		
Amounts receivable	(8,440,156)	(1,385,020)
Prepaid expenses	(44,699)	(13,169)
Accounts payable and accrued liabilities	(3,849,807)	2,003,339
Deposit on property held for sale and property under development	-	(1,833,615)
Mortgage receivable	13,275,289	-
Deferred charges	-	260,475
Deferred leasing costs	(2,667,376)	(10,084)
Tenant deposits	53,259	(576)
	4,372,871	12,851,327
Financing activities		
Increase in City of Toronto loans	25,088,923	65,989,630
Investing activities		
Decrease (increase) in investments	(4,439,517)	273,794
Decrease in restricted cash and investments	961,230	93,971
Additions to properties held for sale	(32,451)	(1,999,197)
Net proceeds from sale of property	1,832,515	2,229,447
Additions to project development costs	(178,363)	56,970
Additions to property under development	-	(73,255,278)
Purchase of investment in TWSI	-	(3,468,130)
Additions to property and equipment	(14,452,661)	-
	(16,309,247)	(76,068,423)
Increase in cash during the year	13,152,547	2,772,534
Cash and cash equivalents - Beginning of year	4,774,002	2,001,468
Cash and cash equivalents - End of year	17,926,549	4,774,002
Cash and cash equivalents		
Cash	1,807,089	4,774,002
Cash equivalents	16,119,460	-
	17,926,549	4,774,002
Supplemental disclosure		
Interest paid during the year	3,307,970	-

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 sole shareholder is the City of Toronto (the City).

The Corporation is the City's principal urban development corporation and exists to act as a catalyst toward 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.

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. The significant accounting policies are summarized below:

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 2010. All intercompany balances and transactions between these subsidiaries and the Corporation have been eliminated.

Revenue recognition

Rental income is recorded on a straight-line basis whereby the total cash to be received over the term of the related lease agreement is recognized in equal periodic amounts. Any difference between the rental revenue recognized and amounts contractually due is recorded as straight-line rent receivable.

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

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 earned and realized and unrealized gains and losses on investments and is accounted for in the consolidated statement of net and comprehensive income and retained earnings.

Financial instruments

The following table presents the classification of financial instruments:

Assets/liabilities	Category	Measurement
Cash and cash equivalents	held-for-trading	fair value
Investments	held-for-trading	fair value
Amounts receivable	loans and receivables	amortized cost
Mortgage receivable	loans and receivables	amortized cost
Amounts payable and accrued liabilities	other liabilities	amortized cost
City of Toronto loans	other liabilities	amortized cost

Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of less than three months.

Project development costs

Project development costs consist of direct costs of relating to the commercial development of land owned by the Corporation. These costs are transferred to the appropriate property and equipment account 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.

Deferred leasing costs

Deferred leasing costs include commissions and other leasing costs. These costs are deferred and amortized on a straight-line basis over the terms of the respective leases.

Properties 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.

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 - 40 years
Land improvements	40 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
Tenant improvements	over the term of the lease

Land improvements consist of various costs incurred to structurally prepare the land for development activities. These costs are expected to be incurred again in the future as the structural improvements are believed to have a limited life of 40 years.

Impairment of long-lived assets

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When indicators of impairment of the carrying value of long-lived assets exist, and the carrying value is greater than the projected undiscounted future net cash flows, an impairment loss is recognized to the extent that the estimated fair value is below the carrying value.

Employee benefits

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

Use of estimates

The preparation of consolidated 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. Significant estimates include the useful lives of property and equipment as well as the valuation of the conditional asset retirement obligation. Actual results could differ from those estimates.

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 periods beginning on or after January 1, 2011. Government businesstype 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 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.

3 Restatement

The Corporation has historically recorded an environmental liability associated with lands in the Port area with varying degrees of contamination. The environmental contamination was caused by activities performed by former owners or tenants of the lands. As a result of these activities, these former owners or tenants had asset retirement obligations that needed to either be directly addressed through remediation activities or settlement agreements with the new owners or with the landlord. As such, the Corporation and these former owners and tenants reached various settlements that included cash consideration plus title to the land in return for an indemnification from future obligations associated with the possible remediation of the lands.

Once the lands were acquired, the Corporation and the Ministry of the Environment established a plan to monitor the level of contamination. The Corporation may be obligated to remediate the lands at a future date if the level of contamination emitted exceeds tolerable levels. To date, the level of contamination has not exceeded these levels. The Corporation may also be required to remediate the lands if it intends to utilize the lands to develop commercial or residential properties. As such, the remediation of these lands and the ability to reasonably estimate the fair value of the financial obligation associated with these activities is conditional on certain future events occurring.

As noted above, the Corporation had historically valued this obligation and recorded it in the 2009 consolidated financial statements of the Corporation at $47,624,566. This obligation was estimated based on valuations performed by environmental engineering and consulting firms on the basis that the contamination would essentially be fully remediated. Given the significant uncertainty around development plans for these lands that are yet to be determined by the Corporation, the Corporation is unable to reasonably predict the future remediation obligation expected to be incurred. Furthermore, the Corporation is unable to predict the future remediation obligation that will be required by the Ministry of the Environment as a result of contamination emitted from the lands. Given that these significant uncertainties existed since the dates when the lands were originally acquired, the Corporation has decided to restate prior year reported amounts for the environmental obligation to $nil.

As part of this restatement, the lands that were acquired as part of the transactions with the former owners or tenants, that were originally recorded at $15,966,428, has also been restated to $nil. The value originally ascribed to these properties was based on the property value post remediation work, which has not happened to date.

The consolidated financial statements reported for December 31, 2009 have therefore been restated as follows:

	As reported December 31, 2009 $	Adjustments $	As restated December 31, 2009 $
Consolidated balance sheet			
Property and equipment	34,918,705	(15,966,428)	18,952,277
Environmental costs	47,624,566	(47,624,566)	-
Retained earnings	8,097,111	31,658,138	39,755,249
Consolidated statement of net and comprehensive income			
Interest and investment income	62,964	31,029	93,993
Rental properties expense	5,532,356	197,669	5,730,025
Net and comprehensive income for the year	8,401,039	(166,640)	8,234,399
Retained earnings - Beginning of year	14,239,832	31,824,778	46,064,610
Retained earnings - End of year	8,097,111	31,658,138	39,755,249
Consolidated statement of cash flows			
Net and comprehensive income for the year	8,401,039	(166,640)	8,234,399
Environmental costs	(166,640)	166,640	-

4 Investments

Investments include guaranteed investment certificates and treasury bills with annual yields ranging from 0.10% to 2.00% (2009 - 0.15% to 3.06%) and maturity dates through 2011 (2009 - through November 2018).

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

	2010 $	2009 $
Interest and investment income	415,737	47,209
Interest income from loan receivable (note 5)	38,083	46,784
Total interest and investment income earned during the year	453,820	93,993

5 Restricted cash and investments

The Corporation as part owner of Toronto Waterfront Studios Inc (TWSI) prior to December 31, 2009, had set aside negotiable securities amounting to $9,000,000 (2009 - $10,000,000), to guarantee a debt facility of TWSI to a third party. On December 31, 2009, this debt facility was acquired from the third party by Build Toronto Inc., a related party to the Corporation. The guarantee of this debt continues to be effective until March 18, 2011 when TWSI and Build Toronto Inc. renegotiated the terms of the debt facility.

6 Loan receivable

Loan receivable consists of the following:

	2010 $	2009 $
Advance to Harbour Remediation and Transfer with interest at 7.25%, repayable in blended monthly payments over 188 months from August 1, 1998	465,839	588,796
Less: Allowance for doubtful loans	(465,839)	(588,796)
	-	-

During the year, the Corporation received payments of $161,040 (2009 - $161,040), which reduced the loan receivable and allowance for doubtful loans by $122,957 (2009 - $114,504). Interest income of $38,083 (2009 - $46,784) was recorded in the consolidated statement of net and comprehensive income. (note 3).

7 Sale of land to residential developer

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. On October 19, 2009, having met a significant permit servicing requirement, the Corporation recognized the sale of the land. The cost of sales includes the value associated with the land sold of $920,951 and a financing adjustment of $287,276 to reflect the interest free status of the vendor-take-back mortgage for the first nine months (discussed below). 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 net effect of the above is the recognition of a gain on sale of $9,151,160 in 2009.

During 2009, deposits of $4,484,037 were received. The Corporation gave the residential developer a vendor-take-back mortgage of $13,752,111. The mortgage has an interest-free period for the first nine months, commencing on October 19, 2009. Interest on outstanding amounts is to be calculated at prime plus 1% and paid quarterly. The mortgage has been recorded based on the present value of future cash receipts discounted at a rate of prime plus 1% per annum. During 2009, $13,273,374 was received and the balance of $476,784 was subsequently received in 2011. The amount of $287,189 discounted in 2009 has been recognized as interest income in 2010.

There is a profit-sharing agreement, the effect of which will be determined after the completion of the project. The developer subdivided the land and achieved conditional sales of 105 of 107 of the lots in 2010. As a result, the developer has declared an interim distribution of $750,000, which has been recognized as a gain on sale in 2010.

On January 4, 2010, the Corporation sold a medium density block of land at Midland and St. Clair to the same residential developer for $2,126,600. The cost of sales includes the value associated with the land sold of $222,544 and the servicing budget of $1,030,790, resulting in a gain of $873,266.

8 Project development costs

The continuity of project development costs is as follows:

	2010 $	2009 $
Balance - Beginning of year	1,222,911	1,279,881
Development costs incurred during the year	450,438	4,990,264
Project costs transferred to property held for sale	-	(4,217,646)
Project costs expensed	(272,075)	(829,588)
Balance - End of year	1,401,274	1,222,911

9 Deferred leasing costs

Deferred leasing costs consist of the following:

			2010
	Cost $	Accumulated amortization $	Net $
Leasing commission and other leasing costs	5,396,787	371,991	5,024,796

			2009
	Cost $	Accumulated amortization $	Net $
Leasing commission and other leasing cost	2,457,336	99,916	2,357,420

10 Property

The Corporation constructed 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 toward parking and leading environmental and energy efficient design (LEED), of which $9,000,000 (2009 - $9,000,000) has reduced property costs. The remaining $3,500,000 received in 2007 has been included in deposit on property in the consolidated balance sheet and will reduce property costs when LEED certification is obtained.

January 1, 2010 was the deemed accounting completion date as it is the lease commencement date for the major tenant of the office and broadcast facility.

Costs in respect of land improvement of $6,145,465 and building of $112,927,841 have been reclassified to property and equipment.

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. The Corporation has capitalized interest of $nil (2009 - $3,587,642) incurred on this loan facility in property and equipment on the consolidated balance sheet. The loan bears interest at 5% per annum, compounded monthly. As at December 31, 2010, $122,421,158 (2009 - $97,609,766) has been advanced on this facility. Interest accrued but not yet paid of $6,078,842 (2009 - $3,587,642) has been added to the principal balance outstanding.

11 Property and equipment

Property and equipment consist of the following:

			2010
	Cost $	Accumulated amortization $	Net $
Land	13,057,443	-	13,057,443
Buildings	139,569,966	11,641,552	127,928,414
Dock walls	387,802	216,074	171,728
Rail lines	273,466	151,540	121,926
Fencing	646,508	539,290	107,218
Furniture and equipment	191,749	163,409	28,340
Computer equipment	284,771	263,450	21,321
Parking lots	616,108	358,167	257,941
Leasehold improvements	228,434	228,434	-
Land improvements	6,611,646	48,879	6,562,767
Tenant improvements	22,500	1,125	21,375
	161,890,393	13,611,920	148,278,473

			2009
	Cost $	Accumulated amortization $	Net $
Land	13,207,093	-	13,207,093
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	-
Land improvements	466,181	25,569	440,612
	28,636,501	9,684,224	18,952,277

12 Related party transactions

a) City of Toronto

i) Included in amounts receivable are amounts due from the City of $2,845,531 (2009 - $2,157,240) 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 $6,593,207 (2009 - $3,356,145), which have arisen as a result of charges for realty taxes, hydro and office facilities.

ii) Included in the City of Toronto loans is an amount of $128,500,020 (2009 - $101,197,408) including accrued interest 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) Included in the City of Toronto loans is an amount of $7,000,910 (2009 - $6,700,000) 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 ten-year term loan and bears interest at 4% per annum.

iv) Included in rental property operating expenses are realty taxes of $5,379,380 (2009 - $3,412,326) and hydro costs of $595,672 (2009 - $543,992) paid to 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.

b) **Build Toronto Inc.**

i) Transfer of assets

City Council declared specific City or Corporation 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, for nominal consideration. On December 31, 2009, the Corporation transferred the shares, assignment of the lease, receivables and property associated with the Corporation's interest in TWSI to BTHOI.

The Corporation adopted the recommendations of CICA Handbook Section 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 contributed surplus to the extent possible and related earnings.

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

	Transfer price $	Consideration $	Charges to surplus $
Investment in affiliated company	2,565,363	5	2,565,358
Land and land improvements	13,158,812	5	13,158,807
Loan receivable	600,001	600,001	-
Deferred rent receivable	136,461	136,461	-
	16,460,637	736,472	15,724,165

Consideration received for the loan receivable of $600,001 and deferred rent receivable of $136,461 has been included in amounts 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 $12,242,072 (2009 - $3,558,086). There are no set terms of repayment of this amount and no interest is being charged by the Corporation.

Subsequent to year-end, the Corporation's board approved a resolution granting the transfer of beneficial interest in the sale of the Midland and St. Clair lots to Build Toronto Inc. The transfer will take effect in 2011 and will result in reducing the intercompany receivable amount from Build Toronto Inc.

c) **Invest Toronto Inc.**

The Corporation has provided a grant of $2,755,611 (2009 - $898,390) to Invest Toronto Inc. to fund its operations and capital expenditures. The grant is part of a five-year commitment of the Corporation to Invest Toronto Inc. to provide funding up to specified funding maximums identified in the grant agreement. At the end of the five-year term, the grant agreement is automatically renewed unless terminated by either party.

13 Prepaid rents

The Corporation received prepaid rental payments from tenants in the Port area. Included in total prepaid rents is $8,890,366 (2009 - $9,223,185) received from the Toronto Hydro Electric Commission for two 99-year leases and St. Mary's Cement Corporation for a 20-year lease, $8,616,195 (2009 - $8,790,993) of which is long-term and $274,171 (2009 - $432,192) of which is current. These prepaid rents are amortized over the terms of the leases.

14 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 2010, which were expensed, totalled $61,440 (2009 - $237,334) and are included in salaries and employee benefits expense on the consolidated statement of net and comprehensive income.

15 Other income

The Corporation received an amount of $1,112,381 during the previous year from Ontario Power Generation Inc. (OPG). $160,000 of this amount 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.

The Corporation received an amount of $431,149 during the year from the Ministry of the Environment as a reimbursement of remediation costs incurred in prior years and $13,903 for a legal settlement.

16 Future grant payments and commitments

a) As at December 31, 2010, the Corporation has committed to make future payments totalling $1,600,000 toward the City's incubator program, which are scheduled for payment in 2011.

b) 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 2011, subject to certain conditions occurring.

c) 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 7). The estimated cost expected to be incurred over the three-year period starting in 2010 was approximately $3,414,000. During the year, $1,311,277 has been incurred.

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.

b) The Corporation has recorded a receivable of $586,438 (2009 - $2,769,353) from current and former tenants who ultimately bear the obligation for realty taxes. Amounts receivable have been reduced by $nil (2009 - $2,076,847) as a provision against non-collectibility.

c) Pursuant to an agreement to provide support to Medical and Related Science Discovery District (MaRS) related to its facility in a heritage designated building, the Corporation has provided a $500,000 undertaking to the City of Toronto for the successful completion of the facility.

d) The Corporation may be required to satisfy a conditional asset retirement obligation for environmental contamination left by tenants or former owners of Port area lands. The obligation to remedy the contamination is contingent on uncertain future events including contamination levels exceeding acceptable levels as prescribed by the Ontario Ministry of the Environment. The obligation to remedy the contamination may also result from the Corporation and its parent, the City of Toronto, agreeing to development plans for the lands. The valuation of the conditional asset retirement obligation has been estimated at $47.6 million at most, but given the uncertainty of when remediation will take place or the total costs expected to actually be incurred, this obligation has been valued at $nil to date.

18 Financial instruments

a) Fair value

The Corporation's financial instruments consist of cash, investments, amounts receivable, mortgage receivable, restricted cash and investments, amounts payable and accrued liabilities, deposits on property, City of Toronto loans and tenant deposits. Other than the mortgage receivable (note 7), these financial instruments are carried at cost, which approximates fair value due to their short-term nature.

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 consolidated 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 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.
- 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.

As at December 31, 2010, 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:

- 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 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.

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 the Corporation's credit risk is low.

- 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 its 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 which was outstanding at December 31, 2009 expired on December 31, 2010.

- Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has $19,547,685 of trade accounts payable and accrued liabilities that are due within one year. The Corporation has cash, amounts receivable and a loan facility from the City that are sufficient to satisfy these liabilities.

- 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 4). 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 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 note 10. As at December 31, 2010, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.

20 Comparative figures

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