Attachment 2

Build Toronto Inc. – 2011 Audited Financial Statements

Date:	June 6, 2012
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

P:\2012\Internal Services\Cf\Ec12017cf (AFS #15332)

Disclosure of Financial Results:

Build Toronto Inc. (the Corporation) is a wholly owned corporation created by City Council on October 29 and 30, 2008. The 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 2011 consolidated financial statements of Build Toronto Inc. and its subsidiaries:

- Build Toronto Holdings One Inc. (BTHOI), incorporated on December 16, 2009 to hold the investment and related obligations in Toronto Waterfront Studios Inc. (TWSI), and
- Build Toronto Holdings (Harbour) Inc., incorporated on April 27, 2011 to hold the investment and related obligations for the property at 10 York Street.

Consolidated Financial Results for 2011

Change in accounting policy (IFRS from GAAP):

The Corporation has adopted International Financial Reporting Standards (IFRS) for 'other government organizations' in the preparation of its financial statements effective January 1, 2011 with a transition date of January 1, 2010. Previously, it used Canadian General Accepted Accounting Principles (GAAP) for profit-oriented organizations. The financial statements for the fiscal year ending December 31, 2010 have been restated for comparison purposes.

The change in accounting has affected the manner in which real properties, both re-sale inventory and investment properties, are reported in the financial statements.
Under previous GAAP, real properties were recorded at cost and depreciated over their estimated useful lives. When they are transferred from the City to the Corporation, they are typically done on a nominal basis. The cost is recorded at the net book value recorded in the City's books.

Under IFRS, the Corporation records properties transferred from the City at fair market value at the date of transfer. Also, the deemed effective transfer date can be earlier than under GAAP. Property values are adjusted to fair value at year-end annually. Project development costs are also capitalized to the appropriate properties. These changes result in an increase to the carrying amount of the properties compared to GAAP, with a corresponding increase to shareholder's equity. When the property is subsequently sold, the cost of sales is set at the property's fair value which is typically higher, resulting in lower profit recognition, with the difference reflected in an increase in equity.

The following table shows the impact of IFRS on key 2010 financials compared with GAAP as previously reported.

Impact of IFRS on prior- year (2010) financial results	**Restated (IFRS)**	**Previously reported (GAAP)**	**Increase/ (Decrease)**
Total assets (as at Dec 31, 2010)	159.6	69.9	89.7
Total liabilities (as at Dec 31, 2010)	47.9	45.5	2.4
Shareholder's equity (as at Dec 31, 2010)	111.7	24.4	87.3
2010 net income	7.4	11.0	(3.6)

Highlights of 2011 Financial Results:

- Net income increased by 16% to $8.6 million mainly from property sales. A list of property transactions during the year can be found in the Corporation's Annual Report.
- Total assets increased by 65% to $263.1 million, and total shareholder equity increased by 67% to $185.9 million at year-end, mainly resulting from real property transfers from the City.
- Cash and cash equivalents increased by $22.6 million or 121% to $41.3 million at year-end.
- The Corporation declared a $20.0 million dividend to the City payable on February 22, 2012.

The following paragraphs summarize and compare the 2011 results with those of 2010 using IFRS.

Consolidated Balance Sheet:

There are two types of real properties: real estate inventory, comprising commercial development properties and land held for sale in the ordinary course of business and reported as current assets, and investment properties, which are held to earn rentals or for future development and reported as non-current assets.

Consolidated Balance Sheet as at December 31, 2011	**2011**	**2010**	**2011 vs 2010 Increase/ (Decrease)**
Total assets	263.1	159.6	103.5
Total liabilities	77.2	47.9	29.3
Shareholder's equity	185.9	111.7	74.3
Total liabilities & shareholder's equity	263.1	159.6	103.5

Total assets (as at December 31) were $263.1 million, including $132.1 million in real estate inventory and $49.7 million in investment properties. This represents an increase of $103.5M (+65%) mainly due to:

- a $87.4 million increase in current assets, largely due to $67.8 million in net increase in real estate inventory, and $22.6 million in cash and cash equivalents
- a $16.2 million increase in non-current assets, comprising $9.3 million in investment property and $7.3 million loan receivable. As at December 31, 2011, total loans receivable were $34.9 million including $29.0 million from Pinewood Toronto Studio Inc, $2.1 million from a vendor-take-back mortgage and $3.8 million from Toronto Waterfront Studios Inc.

Total liabilities (as at December 31) were $77.2 million, comprising:

- $44.3 million in current liabilities, and
- $32.8 million in debt, including $29.0 million long-term loan payable to Infrastructure Ontario for Toronto Waterfront Studios Inc., and $3.8 million deferred loan payable to Toronto Port Lands Company (TPLC, a related party)

Compared year over year, total liabilities increased by $29.3 million mainly due to:

- $20.0 million accrual of dividend payable to the City,
- $17.6 million increase in provision for environmental costs for certain properties transferred during the year
- $3.8 million deferred loan payable to TPLC (as above),
- partially offset by:

- $11.4 million reduction in amount due to TPLC. As at 2010 year-end, the amount due to TPLC was $12.2 million being an advance to the Corporation to assist with its start-up, with no set term of repayment and no interest. In 2011, the obligation was reduced by $11.4 million through the sale of properties designated to be transferred from TPLC to the Corporation.

Total shareholder equity at year-end was $185.9 million, an increase of $74.3 million (+67%) compared with a year ago, mainly due to the recognition of properties transferred from the City during the year.

Consolidated Statement of Comprehensive Income:

Summary Consolidated Statement of Comprehensive Income for the year ended December 31, 2011	**2011**	**2010**	**2011 vs 2010 Increase/ (Decrease)**
Real estate inventory:			
Sales	33.1	19.0	14.1
Cost of sales	(22.5)	(7.8)	(14.6)
Profit from sale of real estate inventory	**10.6**	**11.2**	(0.5)
Investment property:			
Rental revenue	1.6	2.1	(0.5)
Property operating costs	(1.1)	(1.6)	0.5
Net property income	**0.5**	**0.5**	0.0
Net gain from fair value adjustments to investment property	4.4	3.7	0.7
Share of net losses from subsidiaries	(0.7)	(0.9)	0.2
General & administrative expenses & others	(7.8)	(7.0)	(0.8)
Operating profit	**7.1**	**7.5**	0.2
Net interest income/(costs)	0.2	(0.1)	0.3
Other	1.3	0.0	1.3
Net income & total comprehensive income for the year	**8.6**	**7.4**	1.2
Equity - January 1 opening balance	**111.7**	**73.4**	38.2
Transfer of properties from TPLC	85.7	30.8	54.8
Dividend declared	(20.0)	0.0	(20.0)
Equity - December 31 ending balance	**185.9**	**111.7**	74.8

In 2011 the Corporation recorded an excess of revenues over expenditures of $8.6 million, an increase of 1.2 million (+16%) over 2010. This is largely a result of:

- $10.6 million in profits from sale of real estate inventory of $33.1 million less $22.5 million in cost of sales,
- $4.4 million in net gain from fair value adjustments to investment properties,
- $1.5 million in net interest income and other income,
- $0.5 million net property income from investment property rentals/ lease which included Pinewood Toronto Studio Inc.,
- partially offset by:
- $7.8 million in general and administrative expense, and
- $0.7 million being its share of net loss from subsidiaries.

CONTACT

Rob Hatton, Manager, Corporate Finance Division; Tel: (416) 392-9149;
Fax: (416) 397-4555; E-mail: rhatton@toronto.ca

SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer

ATTACHMENT

Appendix A – 2011 Audited Consolidated Financial Statements of Build Toronto Inc.