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

Consolidated Financial Statements
December 31, 2012

April 29, 2013

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 financial statements of the City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company, which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of net income and comprehensive, statement of shareholder's 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 financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company as at December 31, 2012 and its financial performance and its cash flows for the year for the year then ended in accordance with International Financial Reporting Standards.

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	Notes	December 31, 2012	December 31, 2011
		$	$
ASSETS			
Non-current assets			
Investment properties	5	335,927,706	339,803,378
Restricted cash		233,418	233,338
Other non-current assets	6	1,422,853	1,168,692
Non-current assets		337,583,977	341,205,408
Current assets			
Amounts receivable	7, 13	9,803,886	11,385,421
Prepaid expenses		105,427	96,856
Short-term investments	9	4,025,455	9,751,963
Cash and cash equivalents	8	30,742,060	11,961,050
Current assets		44,676,828	33,195,290
Asset held for sale	10	-	149,353,742
Total assets		382,260,805	523,754,440
LIABILITIES AND SHAREHOLDER'S EQUITY			
Non-current liabilities			
Tenants deposits and prepaid rents	12	8,538,250	8,663,715
Non-current liabilities		8,538,250	8,663,715
Current liabilities			
Accounts payable and accrued liabilities	11, 13	8,186,433	8,652,832
Prepaid rents	12	281,794	291,419
Current liabilities		8,468,227	8,944,251
Liabilities related to asset held for sale	10	-	137,960,823
Total liabilities		17,006,477	155,568,789
SHAREHOLDER'S EQUITY		365,254,328	368,185,651
Total liabilities and shareholder's equity		382,260,805	523,754,440
Commitments and contingencies	19, 20		

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

Approved by the Board of Directors

_______________ Director _______________ Director

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Statement of Shareholder's Equity

	Notes	Number of Shares	Capital	Retained Earnings	Total Shareholder's Equity
			$ (note 1)	$	$
Balance, as at January 1, 2011		1	1	372,073,375	372,073,376
Net income		-	-	6,886,701	6,886,701
Transfer of assets to Build Toronto Inc.	13(b)(iv)	-	-	(10,774,426)	(10,774,426)
Balance, as at December 31, 2011		1	1	368,185,650	368,185,651
Net income		-	-	40,872,527	40,872,527
Distributions		-	-	(40,000,000)	(40,000,000)
Transfer of assets to Build Toronto Inc.	13(b)(i)	-	-	(2,903,876)	(2,903,876)
Reserve for future transfer of assets to Build Toronto Inc.	13(b)(iv)	-	-	(899,974)	(899,974)
Balance, as at December 31, 2012		1	1	365,254,327	365,254,328

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

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Statement of Net Income and Comprehensive Income

For the years ended December 31	Notes	2012	2011
		$	$
Revenue from investment properties	15	19,021,129	35,741,258
Investment property operating expenses	16, 13(a)(ii)	8,123,203	15,886,957
Net property income		10,897,926	19,854,301
Expenses			
General and administrative	17	3,628,068	2,888,889
Environmental monitoring		122,715	293,407
Amortization	18	1,579,922	1,627,019
		5,330,705	4,809,315
Income before the following		5,567,221	15,044,986
Other income (expenses)			
Property tax rebate		-	1,458,033
Interest and investment income		648,825	362,280
Incubator program funding	13 (a) (iii)	(1,346,027)	(1,547,970)
Invest Toronto grant	13 (c) (i)	(2,471,978)	(2,271,674)
Interest		(1,157,131)	(6,218,499)
		(4,326,311)	(8,217,830)
Income before gain on sale of investment properties		1,240,910	6,827,156
Gain on sale of investment properties	5	39,631,617	59,545
Net income and comprehensive income		40,872,527	6,886,701

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

City of Toronto Economic Development Corporation
c.o.b Toronto Port Lands Company
Consolidated Statement of Cash Flows

For the years ended December 31,	Notes	2012	2011
		$	$
OPERATING ACTIVITIES			
Net Income		40,872,527	6,886,701
Item not effecting cash	14	(38,836,534)	(1,654,999)
Net change in operating assets and liabilities	14	(3,597,007)	(6,732,604)
Cash provided by(used in operating activities		(1,561,014)	(1,500,902)
FINANCING ACTIVITIES			
Increase (decrease) in City of Toronto loans		(128,500,020)	(7,000,910)
Distribution to shareholder		(40,000,000)	-
Cash provided by (used in) financing activities		(168,500,020)	(7,000,910)
INVESTING ACTIVITIES			
Purchase of short-term investments		(4,025,455)	(9,751,963)
Sale of short-term investments		9,751,963	4,939,517
Decrease (increase) in restricted cash		-	9,059,996
Net proceeds from sale of investment property		184,186,666	59,545
Increase in other non current assets		(385,080)	(635,396)
Additions to asset held for sale		(187,191)	-
Additions to investment properties		(498,859)	(1,135,386)
Cash provided by (used in) investing activities		188,842,044	2,536,313
Net increase (decrease) in cash and cash equivalents during the year		18,781,010	(5,965,499)
Cash and cash equivalents, beginning of year	8	11,961,050	17,926,549
Cash and cash equivalents, end of year	8	30,742,060	11,961,050

The accompanying notes are as integral part of these financial statements.

Note 1
Nature and Description of the Corporation

The City of Toronto Economic Development Corporation (the "Corporation") was incorporated under the Ontario Business Corporations Act on March 21, 1986. The number of shares authorized and the number of shares issued and outstanding is one common share. The Corporation's share capital is all held by the City of Toronto (the "City").

The Corporation now operates as Toronto Port Lands Company ("TPLC") and generates revenues for the City by maximizing the value and economic development potential of properties under its management.

The Corporation has been designated as a Government Business Enterprise ("GBE").

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

The Corporation's consolidated financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors on, April 29, 2013, after which the consolidated financial statements may only be amended with the Board's approval.

Note 2
Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of presentation and consolidation, and statement of compliance

The Corporation prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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

- Arrowhead New Toronto East Inc.
- Arrowhead New Toronto West Inc.
- Arrowhead New Toronto South Inc.

Arrowhead New Toronto East Inc. holds title to the properties formally and municipally known as 260 Eighth Street and 124 Birmingham Street, Etobicoke, as a nominee corporation pursuant to TPLC's shareholder's direction.

Arrowhead New Toronto West Inc. and Arrowhead New Toronto South Inc. are inactive corporations with no assets and have been since their incorporation in 2005.

Accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Corporation.

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

Basis of measurement

The Corporation's consolidated financial statements are prepared on a going concern basis.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets & liabilities, which are measured at fair value.

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's presentation currency.

Special purpose entities (SPEs)

An SPE is defined as an entity created to accomplish a narrow and well-defined objective. SPEs are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making power of their governing board, trustees or management over the operations of the SPE. Consolidation is required when the substance of the relationship between an entity and the SPE indicates the SPE is controlled by that entity. The Corporation has determined it is not a party to any SPEs.

Real estate properties

Investment properties

Investment properties include land, office and other commercial properties held to earn rental income or for capital appreciation or for which future use is uncertain.

The Corporation categorizes its investment properties as income-producing properties and properties under development. Investment properties are accounted for using the cost model wherein the cost of an income-producing property is allocated to its significant components and is amortized over the useful life of each component as described below. Properties under development are not amortized until they are reclassified to income-producing properties upon completion, as disclosed below.

Investment properties are initially recorded at cost. Cost of investment property includes the acquisition cost of the property, including related transaction costs in connection with an asset acquisition, assessment of environmental conditions, site survey, appraisals, direct development and construction costs and property taxes during development.

The Corporation estimates the value of significant components based on the actual cost of the component where available, otherwise on an amortized replacement cost basis. These components are amortized over their respective useful lives. Residual values and useful lives of all components are reviewed and adjusted, if appropriate, at least at each financial year-end. Generally, the significant components of a property and related useful lives are:

Significant Components	Useful Life (years)
Base building and structure	8 - 44
Roof	4 - 40
Heating, ventilation, air conditioning and cooling systems ("HVAC")	3 - 18
Elevators	21 - 40
Paving	10 - 38
Land improvement	19
Yard work	5

Additions to investment properties

Extension and improvements to the productive capacity of leasable area of existing income-producing properties owned by the Corporation requires significant ongoing capital expenditures. The Corporation considers its productive capacity maintenance expenditures to be the following:

- Major maintenance costs: Maintenance and repair costs are expensed against operations, while major maintenance costs, which are major items of repair or replacement incurred pursuant to a capital plan that improve productive capacity, are capitalized to income-producing properties. Each item is amortized over the useful life of the significant component to which it relates.

- Tenant improvements: Amounts expended to meet the Corporation's lease obligations are characterized as either tenant improvements, which are owned by the landlord, or tenant inducements. An expenditure is determined to be a tenant improvement when it primarily benefits and/or is owned by the landlord. In such circumstance, the Corporation is considered to have acquired an asset which is accounted for as a component of income-producing properties. Each tenant improvement is amortized over its useful life, which is generally between five and ten years.

- Leasing commissions: Direct third party brokerage fees incurred in the successful negotiation of a lease are amortized on a straight-line basis over the expected terms of the respective leases. The unamortized balance is expensed in full in the event the associated property is sold or the lease is terminated prior to its contractual expiration date. Leasing commissions are included in the carrying value of the investment property.

As a component of an income-producing property is replaced, the net book value of such replaced component is expensed in full, with amortization, to the extent a balance remains.

Properties under development

The cost of properties under development includes all expenditures incurred in connection with acquisition and development, including all direct development costs, realty taxes and general and administrative expenses, and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short term if the activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined by reference to interest incurred on debt specific to the development project. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Corporation considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the Corporation has pre-leased space as of or prior to the start of the development and the lease requires the Corporation to construct tenant improvements that enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Impairment

At the end of each reporting period, management reviews the Corporation's investment properties to determine whether there is an event or change in circumstance that indicates a possible impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the effect of the impairment loss, if any.

An impairment loss is present if the recoverable amount (determined as the higher of fair value, less costs to sell, and value in use) is less than its carrying value and is measured as the difference between such amounts.

Fair value is determined based on:

1) consideration of recent prices of similar properties with similar markets;
2) a discounted cash flow analysis which is based upon, among other things, rental income from current leases and assumption about rental income from future leases reflecting market conditions on the valuation date, less future cash outflows in respect to such leases, discounted generally over a term of ten years; and
3) a direct capitalization method, which is based on the conversion of normalized earnings into an expression of market value. The normalized net income for the year is divided by an overall capitalization rate.

Costs to sell include legal fees, transaction taxes and direct incremental costs to bring an asset into condition for its sale.

The value in use is calculated as the discounted present value of estimated future cash flows expected to arise from the Corporation's planned use of an asset and from its disposal at the end of its useful life.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversible amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of the impairment loss is recognized in the consolidated statement of net income and comprehensive income immediately.

For the years ended December 31, 2012 and 2011, there were no impairment losses recognized on the Corporation's investment properties.

Other non-current assets

Other non-current assets include project development costs, rail lines, fencing, furniture, fixtures and office, computer and property equipment. Rail lines, fencing, furniture, fixtures and office, computer and property equipment are stated at cost, less accumulated depreciation and amortization and accumulated impairment losses.

Depreciation and amortization are provided on a basis designed to depreciate or amortize the costs of the assets over their expected useful lives as follows:

	Useful life (years)
Furniture, fixtures and office equipment	5
Computer equipment	3
Rail lines	25
Fencing	5
Property equipment	5

Residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end.

Cost includes expenditures that are directly attributable to the acquisition and expenditures for replacing part of the property and equipment when that cost is incurred, if the recognized criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. All repairs and maintenance are charged to comprehensive income during the financial period in which they are incurred.

Rail lines, fencing furniture, fixtures and office, computer and property equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. The amount of the loss is recognized in profit or loss. The carrying amount is reduced by the impairment loss directly. There were no impairment losses recognized during the year ended December 31, 2012.

Rail lines, fencing, furniture, fixtures and office, computer and property equipment are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income in the year the asset is derecognized.

Project development costs consist of direct costs relating to the commercial development of land owned by the Corporation. These costs are transferred to the appropriate investment property accounts upon substantial completion or to properties held for sale where the Corporation's intent is to dispose of the developed property. Amortization of the costs transferred to investment property commences with the commercial use of the property. For projects that are abandoned, costs are immediately expensed.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with remaining maturities at the time of acquisition of three months or less. Bank borrowings are considered to be financing activities.

Restricted cash and investments

Restricted cash and investments include cash on hand and short-term notes, bankers' acceptances and treasury bills and are valued based on cost plus accrued income, which approximates fair value. Pursuant to a direction from City Council, these funds, and all accumulating investment income, are to be utilized for the environmental remediation of its Port Land properties when it undertakes redevelopment at these sites.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value for the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to the passage of time is recognized as an interest expense.

Revenue recognition

Revenue from investment properties includes rents from tenants under leases, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income.

The Corporation has retained substantially all of the risks and benefits of ownership of its real estate properties and, therefore, accounts for leases with its tenants as operating leases. Percentage participation rents are accrued based on sales estimates submitted by tenants if tenants anticipate attaining the minimum sales level stipulated in the tenant lease.

Revenue from investment properties during free rent periods represents future cash receipts and is reflected in the consolidated balance sheets in other non-current assets and recognized in the consolidated statement of net income and comprehensive income on a straight-line basis over the initial term of the lease. The Corporation accounts for stepped rents on a straight-line basis. Rents recorded in advance of cash received are included in amounts receivable. Tenant incentive receivables are included in the other non-current assets and are deducted from rental revenue on a straight-line basis over the term of the tenant's lease. All other rental revenue is recognized in accordance with each lease.

Revenue from properties under development is recognized upon substantial completion of the development project and when the property is capable of operating in the manner intended by management, which generally occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

Investments, short-term investments and investment income

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

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

Investment income includes interest and realized gains and losses.

Assets held for sale

Non-current assets and groups of assets and liabilities that comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available-for-sale in its present condition and the sale is highly probable. For this purpose, a sale is highly probable if: management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current assets or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and changes to the plan are unlikely.

Assets held for sale are measured at the lower of the carrying cost and fair value and are not amortized while classified as held for sale.

Comprehensive income

Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income. Accordingly, the Corporation prepares a consolidated statement of comprehensive income and includes accumulated other comprehensive income as a component of shareholder's equity within the consolidated balance sheet.

Environmental costs

The Corporation owns and controls lands with varying degrees of environmental contamination. The costs to remediate these lands depend on the timing and final approved use of the sites. Where costs cannot be reasonably determined at this time, a contingent liability exists. The Corporation recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, and when a reliable estimate can be made.

The lands are periodically assessed to determine whether an outflow of resources embodying economic benefits has become probable and can be reliably measured. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements in the year in which the change in probability occurs.

Property tax rebate programs

The Corporation is eligible to receive rebates for remediation costs incurred and future property taxes as part of various City incentive programs for new property developments. On successful application and execution of a rebate agreement with the City, the Corporation recognizes these grants annually in income unless the timing of receipt is uncertain.

Financial instruments

Recognition and measurement of financial instruments

Financial assets must be classified into one of the following categories: held to maturity, loans and receivables, fair value through profit or loss or available-for-sale assets. Financial liabilities are classified as other financial liabilities or fair value through profit or loss. All financial instruments, including derivatives, are measured in the consolidated balance sheet at fair value except for loans and receivables and other financial liabilities that are measured at amortized cost using the effective interest rate method.

The Corporation designated its cash and cash equivalents and restricted cash and investments as held for trading, which is measured at fair value. The fair value approximates its carrying value. Amounts receivable and mortgage receivable are classified as loans and receivables, which are measured at amortized cost. City of Toronto loans, accounts payable and accrued liabilities, tenants' prepaid rent and deposits and long-term debt obligations are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs

Direct and indirect financing costs that are attributable to the issue of financial liabilities classified as other financial liabilities are presented as a reduction from the carrying amount of the related debt and are amortized using the effective interest rate method over the terms of the related debt. These costs include interest; amortization of discounts or premiums relating to borrowings; fees and commissions paid to lenders, agents, brokers and advisers; and transfer taxes and duties that are incurred in connection with the arrangement of borrowings.

Fair value

The fair value of a financial instrument is the amount of consideration agreed on in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value may be based on other observable current market transactions in the same instrument, without modification, or on a valuation technique using market-based inputs. The Corporation's financial assets include cash and cash equivalents, short term investments and amounts receivable. The Corporation's financial liabilities include accounts payable and accrued liabilities and loan payable to the City. The carrying values of the Corporation's financial assets and financial liabilities approximate their fair values because of the short period of time until the receipt or payment of cash, except where separately disclosed in the notes to the consolidated financial statements.

Impairment

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of net income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan or receivable is impaired, the Corporation reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

An allowance is provided for when collection is no longer reasonably assured, including bankruptcy, abandonment by tenants and in certain tenant disputes.

The allowance for doubtful accounts as at December 31, 2012 was $1,510,953 (December 31, 2011 - $1,899,688).

Note 3
Critical accounting judgments, estimates and assumptions in applying accounting policies

Critical judgments in applying accounting policies

The following are the critical judgments that have been made in applying the Corporation's accounting policies that have the most significant effect on amounts in the consolidated financial statements:

- Selection of accounting standards: The Corporation has been identified as a GBE and accordingly management considered various criteria applicable to the Corporation's business in selecting the appropriate accounting standards to follow. These criteria include whether the Corporation: (a) is a separate legal entity with powers to contract in its own name and sue and be sued; (b) has been delegated the financial and operational authority to carry on a business; (c) sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and (d) can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government. The Corporation meets all the above criteria and, therefore, follows IFRS.

- The Corporation's accounting policies relating to investment properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

- The Corporation feels that in absence of reliable comparable market data, and alternative reliable estimates of fair value, it will not be possible to reliably measure its investment properties at fair value on a continuing basis and as a result has elected to use the cost basis model.

- The Corporation makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the Corporation is the lessee, are operating or finance leases. The Corporation has determined that all of its tenant leases and long-term ground leases are operating leases.

Critical accounting estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods.

In determining fair value and recoverable amount for its real estate assets, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. In addition, the computation of cost reimbursements from tenants for realty taxes, insurance and common area maintenance charges is complex and involves a number of estimates, including the interpretation of terms and other tenant lease provisions. Tenant leases are not consistent in dealing with such cost reimbursements and variations in computations can exist. Adjustments are made throughout the year to these cost recovery revenues based on the Corporation's best estimate of the final amounts to be billed and collected.

The estimates also include: (i) impairment of investment properties and financial instruments; (ii) useful lives of investment properties and the significant components thereof used in calculation of amortization; (iii) fair value of financial instruments; (iv) allowances for doubtful accounts; and (v) measurement of environmental provisions.

Note 4
Future accounting policy changes

IFRS 9, Financial instruments ("IFRS 9")

IFRS 9 was issued by the IASB on November 12, 2009 and has replaced IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in International Accounting Standards ("IAS") 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39.

IFRS 10, Consolidated Financial Statements (IFRS 10)

IFRS 10 outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

IFRS 11, Joint Arrangements (IFRS 11)

IFRS 11 outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly).

IFRS 12, Disclosure of Interest in Other Entities (IFRS 12)

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied.

IAS 1 Presentation of Financial Statements ("IAS 1")

In June 2011, the IASB made amendments to IAS 1 that will require entities to group items presented in other comprehensive income on the basis of whether they will or will not subsequently be reclassified to profit or loss. The amended version of IAS 1 is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

The above future accounting policy changes are effective for annual periods starting on or after January 2013 with early adoption permitted (except for IAS 1 which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9, which is effective for annual periods beginning on or after January 1, 2015). The Corporation does not expect that these amendments will result in a material impact to the financial statements.

Note 5
Investment properties

The Corporation feels that in absence of reliable comparable market data, alternative reliable estimates of fair value, and significant uncertainties relating to the timing, cost, infrastructure requirements and eventual use of the properties, it is not possible to reliably measure its investment properties at fair value on a continuing basis and as a result has elected to use the cost basis model. In addition, no fair value disclosures have been provided for the investment properties for the same reason.

During the year, the Corporation acquired an investment property at 281 Cherry Street, Toronto, Ontario for $441,619.

The allocation of the acquisition cost to the components is as follows:

	$
Building	270,000
Land	153,300
Roof	13,319
HVAC	5,000
	441,619

Investment properties consist of the following:

		December 31, 2012	
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Land	313,878,924	-	313,878,924
Base building and structure	20,513,173	2,622,681	17,890,492
Elevator	36,125	5,160	30,965
HVAC	1,548,991	384,482	1,164,509
Roof	1,837,844	335,869	1,501,975
Land improvement	440,611	69,570	371,041
Paving	660,991	73,050	587,941
Yard work	1,180,300	695,470	484,830
Leasing commission costs	38,468	21,439	17,029
	340,135,427	**4,207,721**	**335,927,706**

			December 31, 2011
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Land	314,916,026	-	314,916,026
Base building and structure	22,123,829	1,994,137	20,129,692
Elevator	36,125	3,440	32,685
HVAC	1,596,894	262,352	1,334,542
Roof	1,860,742	227,425	1,633,317
Land improvement	440,611	46,380	394,231
Paving	660,991	46,087	614,904
Yard work	1,180,302	455,028	725,274
Leasing commission costs	38,468	15,761	22,707
	342,853,988	**3,050,610**	**339,803,378**

Reconciliation of the carrying amount for investment properties is set out below:

	Income Producing Properties	**Asset Held for Sale**	**Total**
	$	$	$
Balance as at December 31, 2011	339,803,378	140,741,188	480,544,566
Additions:			
Capital expenditure	57,240	-	57,240
Acquisitions	441,619	-	441,619
Transfers	(2,903,876)	-	(2,903,876)
Disposition	-	(140,741,188)	(140,741,188)
Amortization	(1,470,655)	-	(1,470,655)
Balance as at December 31, 2012	**335,927,706**	-	**335,927,706**

	Income Producing Properties	**Asset Held for Sale**	**Total**
	$	$	$
Balance as at December 31, 2010	480,298,708	-	480,298,708
Additions:			
Capital expenditure	1,742,680	-	1,742,680
Leasing Commission	46,957	-	46,957
Amortization	(1,543,779)	-	(1,543,779)
Classified to asset held for sale	(140,741,188)	140,741,188	-
Balance as at December 31, 2011	**339,803,378**	**140,741,188**	**480,544,566**

Gain on sale of investment properties

On January 31, 2008, the Corporation sold 12.92 acres of the land at Midland and St. Clair Avenue, Toronto, to a residential developer, which included a profit-sharing agreement, the effect of which is to be determined upon the completion of the project. During the year, the residential developer declared interim distributions of $433,662 (2011, $59,545). An additional gain on sale of this property was recorded for the amount received after adjusting for the revised estimated cost to complete and the grant on Parklands dedication for a total of $899,974.

The investment property at 25 Dockside Drive, Toronto, designated in 2011 as an asset held for sale was sold for $186,000,000 resulting in a net gain of $38,731,643 (note 10).

Note 6
Other non-current assets

Other non-current assets consist of the following:

		December 31, 2012	December 31, 2011
		$	$
Project development costs		562,619	512,209
Straight-line rent receivable		239,400	178,257
Free rent cost		153,698	234,219
Furniture, fixtures and equipment	(a)	467,136	244,007
		1,422,853	1,168,692

(a) Furniture, Fixtures and equipment

	December 31, 2012			December 31, 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	$	$	$	$	$	$
Rail lines	292,358	173,795	118,563	273,467	162,479	110,988
Fencing	729,297	619,880	109,417	646,508	580,305	66,203
Furniture, fixtures & office equipment	327,298	199,940	127,358	192,740	177,562	15,178
Computer equipment	401,037	313,848	87,189	332,222	280,584	51,638
Property equipment	27,343	2,734	24,609	-	-	-
	1,777,333	**1,310,197**	**467,136**	**1,444,937**	**1,200,930**	**244,007**

Note 7
Amounts receivable

Amounts receivable consist of following:

	December 31, 2012 $	December 31, 2011 $
Tenants	497,679	1,967,503
Others	3,418,590	2,527,743
City (property tax vacancy rebates)	2,444,000	2,725,346
Related parties	4,711,171	5,653,395
Harbour Remediation & Transfer loan receivable	192,026	333,805
HST	51,013	77,317
Allowance for doubtful accounts	(1,510,593)	(1,899,688)
	9,803,886	**11,385,421**

During the year, the Corporation received payments of $161,040 (2011 - $161,040), which reduced the loan receivable from Harbour Remediation and Transfer (HRT) and allowance for doubtful loans by $141,779 (2011 - $132,033). Interest income of $19,261 (2011 - $29,007) was recorded in the consolidated statement of net income and comprehensive income.

Credit risk related to amounts receivable arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. Refer to note 22 for the Corporation's assessment of the credit risks and action taken to mitigate such risks.

Note 8
Cash and cash equivalents

Cash and cash equivalents consist of the following:

	December 31, 2012 $	December 31, 2011 $
Cash and cash equilvalents	18,730,861	5,597,257
Flexi GICs	1,601,880	1,590,000
High interest savings accounts	10,409,319	4,773,793
	30,742,060	**11,961,050**

Note 9
Short-term investments

Short-term investments consist of the following:

	December 31, 2012 $	December 31, 2011 $
Canada Savings Bonds, bankers' acceptances and discount notes	4,025,455	9,751,963

Note 10
Asset classified as held-for-sale and related liabilities

The asset held for sale at December 31, 2011 included a 500,000 square foot office and broadcast facility located on the Queen Elizabeth Docks situated on Toronto's waterfront.

Pursuant to the Corporation's Board of Directors' resolution dated March 3, 2011, City Council's consent was obtained for the sale of the above property and marketing efforts were initiated. Offers were received from potential buyers in the fall of 2011. The existing tenant exercised the right of first offer and the sale was closed on March 9, 2012.

The asset held-for-sale consists of the following:

	December 31, 2012 $	December 31, 2011 $
Amounts receivable	-	1,669,541
Straight line rent receivable	-	6,160,992
Free rent	-	136,639
Tenant improvements	-	421,375
Prepaid insurance	-	26,557
Cost to sell	-	197,450
Investment property	-	140,741,188
	-	**149,353,742**

Liabilities related to the asset held-for-sale consist of the following:

	December 31, 2012 $	December 31, 2011 $
Amounts payable	-	1,424,196
Amounts payable to tenants	-	4,406,981
Deferred revenue - free rent	-	97,307
Tenant deposit	-	32,319
Deposit on property	-	3,500,000
City of Toronto loan	-	128,500,020
	-	**137,960,823**

Note 11
Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2012 $	December 31, 2011 $
Trade payable	2,354,818	736,692
Accrued liabilities	2,667,601	5,563,571
Property tax related	1,806,110	1,806,110
Related party	1,241,312	72,834
Other	114,052	89,188
HST	-	135,125
Construction holdbacks	2,540	249,312
	8,186,433	**8,652,832**

Note 12
Tenant deposits and prepaid rents

Tenant deposits and prepaid rents consist of the following:

	December 31, 2012 $	December 31, 2011 $
Tenant deposits	271,652	222,319
Prepaid rents	8,548,392	8,732,815
	8,820,044	8,955,134
Less current portion	281,794	291,419
	8,538,250	**8,663,715**

Prepaid rents of $8,548,392 (December 31, 2011 - $8,732,815) represents rental payments received from the Toronto Hydro Electric Commission for two 99-year leases and St Mary's Cement Corporation for a 20-year lease.

Note 13
Related party transactions

In addition to related party transactions and balances discussed elsewhere in the notes, the relationship and transactions with the related parties are discussed below:

Related party	**Relationship**
City of Toronto (City)	parent and shareholder
Build Toronto Inc. (BTI)	same parent
Build Toronto Holdings One Inc. (BTHOI), subsidiary of BTI	same parent
Invest Toronto Inc. (ITI)	same parent

a) City of Toronto

i) Included in amounts receivable are amounts due from the City of $2,960,154 (2011 - $3,407,340) 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 $1,776,949 (2011 - $1,046,174), which have arisen as a result of charges for realty taxes, hydro and office facilities.

ii) Included in rental property operating expenses are realty taxes of $5,562,643 (2011 - $9,390,061) and hydro costs of $357,006 (2011 - $436,739) paid to the City.

iii) The Corporation previously carried out the activities and staffing of the incubator program. Subject to a City Council decision in October 2008 effective January 1, 2009, the Corporation's incubator program will be managed by the City within its Economic Development and Culture Division. The City and the Corporation entered into a grant agreement for an initial term of two years and is automatically renewed unless the City elects not to renew the agreement for an additional term. This grant is included in the consolidated statement of net income and comprehensive income.

The Corporation paid an amount of $1,346,027 (2011 - $1,547,970) during the year to the City as a grant towards their incubator program.

b) Build Toronto Inc.

i) As per City Council direction, the Corporation transferred an investment property at 60 Atlantic Avenue to BTI on April 30, 2012. The transaction was measured at the Corporation's carrying amount. The net book value of the property at the date of transfer, including related working capital, was $2,903,876.

ii) On June 22, 2011, the Corporation provided a loan to BTHOI in the amount of $3,660,917. The loans bears interest at 6% per annum, with interest calculated in arrears annually, with the first payment of interest due on June 23, 2012, and maturity on June 23, 2014. The loan balance including accrued interest of $3,776,145 (2011 - $3,777,063) is included in amounts receivable.

iii) During 2012 the Corporation had an arrangement whereby certain office services, occupancy and staffing costs were shared with BTI. The allocation of these costs from BTI for the year is $119,508 (2011 - $912,846). These costs are part of the general and administrative costs.

iv) Pursuant to City Council Report EX32.5, City Council directed TPLC to assign to BTI its entitlement in respect of the Midland and St. Clair property. During 2011, pursuant to the shareholder direction the Corporation's board approved payment of the estimated net proceeds of the 2009 and 2010 sale of lots in Midland and St. Clair property in the amount of $10,774,426 to BTI, through a reduction of the intercompany amount receivable from BTI. In 2012, the Corporation's board authorized a reserve in the amount of $899,974 for additional amounts due to BTI based upon additional proceeds received to date and adjustments to the estimated cost to complete as at December 31, 2012 in respect of obligations in connection with the sale, and which is included in Accounts payable and accrued liabilities. The final amount ultimately to be transferred to BTI may change if further additional proceeds are received or as a result of further adjustments to the estimated cost to complete. There are no set terms of repayment of this amount and no interest is being accrued by the Corporation.

c) **Invest Toronto Inc.**

i) Subject to a City council report in October 2008, the Corporation was directed to assist and support the start-up of two new municipal corporations, ITI and BTI. As a result, a five-year grant agreement effective January 1, 2009 was executed with ITI 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. This grant is included in the consolidated statement of net income and comprehensive income.

In 2012, the Corporation has provided a grant of $2,471,978 (2011 - $2,271,674) to ITI to fund its operating and capital expenditures.

ii) Included in amounts receivable is an amount of $51,023 (2011 - $992,329 payable) due from ITI relating to timing of funds advanced for its operating and capital expenditures.

iii) During 2012, the Corporation had an arrangement whereby certain office services, occupancy and staffing costs were shared with ITI. The allocation of these costs to ITI for the year is $111,870 (2011 - $10,860).

Note 14
Consolidated statement of cash flows

(a) Items not affecting cash

For the years ended December 31	2012	2011
	$	$
Amortization on IP and tenant improvements	1,579,922	1,627,019
Amortization of free rent cost	82,336	86,422
Free rent revenue	(17,172)	(40,015)
Gain on sale of investment property	(39,631,617)	(59,545)
Prepaid rents recognized	(184,422)	(157,551)
Straight-line rent receivable	(648,205)	(3,107,009)
Deferred cost	2,275	-
Accrued interest income	(19,651)	(4,320)
	(38,836,534)	(1,654,999)

(b) Net change in Operating Assets and Liabilities

For the years ended December 31	2012	2011
	$	$
Amounts receivable	3,270,647	(2,374,145)
Accounts payable and accrued liabilities	(6,902,654)	(5,735,341)
Prepaid	17,986	(6,004)
Deferred project development cost	-	895,985
Mortgage receivable	-	476,734
Tenant deposits	17,014	10,167
	(3,597,007)	(6,732,604)

Note 15
Revenue from investment properties

Investment property rental revenue comprises the following:

	2012	2011
	$	$
Leases	8,795,954	19,005,187
Licenses	3,915,312	3,018,844
Parking and other revenue	29,419	149,677
Recoverable operating costs and property taxes	6,280,444	13,567,550
	19,021,129	**35,741,258**

Future minimum rents receivable is as follows:

	$
2013	7,532,399
2014	4,436,545
2015	3,731,534
2016	2,488,225
2017	1,974,677
Thereafter	94,834,242
	114,997,622

Note 16
Investment property operating expenses

Investment property operating expenses comprise the following:

	2012	2011
	$	$
Repairs and maintenance	1,304,099	3,711,460
Property taxes	5,149,174	7,369,205
Administrative	502,070	1,663,416
Utilities	1,254,498	2,991,648
Bad debts	(86,638)	151,228
	8,123,203	**15,886,957**

Note 17
General and administrative expenses

General and administrative expenses comprise the following:

	2012	2011
	$	$
Salaries and expenses	2,510,501	1,708,528
Professional fees	433,574	814,321
Office services	683,993	366,040
	3,628,068	**2,888,889**

Note 18
Amortization

	2012	2011
	$	$
Investment properties	1,464,977	1,538,102
Other non-current assets	50,892	51,953
Computers and,office and property equipment	58,375	31,287
	1,574,244	**1,621,342**
Leasing Commission	5,678	5,677
	1,579,922	**1,627,019**

Note 19
Commitments

a) The Corporation has a project management agreement with a developer to fund the cost to complete the servicing of the residential land at Midland and St. Clair sold in 2008. The estimated cost expected to be incurred over the three-year period starting in 2010 was approximately $3,414,000. During the year, $1,262,981 (2011 - $221,710) was incurred and pursuant to a revision in the estimated cost to complete (note 5), the revised estimated cost to complete as at December 31, 2012 is $ 554,568.

b) In 2011, the Corporation's Board of Directors approved a resolution granting the transfer of beneficial interest in the sale of the land at Midland and St. Clair to BTI. In 2012, an amount of $899,974 was recorded as additional gain on sale on Midland and St. Clair (note 5). This amount and all future benefits from this sale will be transferred to BTI on the approval of the Corporation's Board of Directors.

c) Effective June 1, 2012, the Corporation entered into an operating lease with Oxford Properties Group Inc. for a period of 5 years expiring May 31, 2017, at annual rent of $195,909.

Note 20
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) 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 for the successful completion of the facility.

c) The Corporation may be required to satisfy an asset retirement obligation for environmental contamination left by tenants or former owners of certain properties in the Port 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 asset retirement obligation has been estimated at $47,600,000 at most, but given the uncertainty of when remediation will take place or the total costs expected to actually be incurred, this provision has been determined to not be reliably measurable and, accordingly, has not been recognized for accounting purposes.

d) The Corporation was recently advised of a legal matter related to a tax abatement program for a property where the grants received and accrued to date of approximately $899,024 may be repayable under certain default conditions. The property had been sold to a third party in 2006 and the Corporation is seeking to provide an indemnity to the City should a default condition arise until the expiry of the program in 2018.

Note 21
Employee benefits

Post-employment 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. This pension 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 this pension 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 2011, which were expensed, totalled $181,616 (2011 - $96,410) and are included in salaries and employee benefits expense on the consolidated statement of net income and comprehensive income.

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's key management personnel include the President and Chief Executive Officer, Chief Financial Officer, General Counsel and Corporate Secretary and directors. The compensation paid or payable to key management for employee services is shown below:

For the year ended December 31

	2012	2011
	$	$
Salaries and other short-term employee benefits	722,502	496,157
Directors fees	-	-
	722,502	**496,157**

In 2011, $171,201 was allocated to BTI and $12,378 was allocated to ITI as part of shared services. $ 496,157 is the net balance.

Note 22
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 cash and cash equivalents and mortgage receivable, these financial instruments are carried at cost, which approximates fair value due to their short-term nature.

IFRS requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of a financial asset or financial liability as at 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, 2012, the short-term investments are classified as Level 2 investments as they mainly consisted of short-term bankers' acceptances and deposits.

As at December 31, 2012, cash and cash equivalents of $ 30,742,060 (2011 - $ 11,961,050) are classified in the Level 1 category.

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 counter party 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 as 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.

- Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has $8,186,433 of trade accounts payable and accrued liabilities that are due within one year. The Corporation has cash and cash equivalents, short term investments and amounts receivable 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 (notes 8 and 9). 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 as year-end would not impact income.

The loan receivable (note 7) 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.

Note 23
Capital management

The Corporation's capital comprises debt and shareholder's equity.

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. As at December 31, 2012, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.