

An aerial photograph of the CN Tower in Toronto, Ontario, Canada. The tower is the central focus, extending vertically from the bottom right towards the top center. The background shows a dense urban landscape with various high-rise buildings, parking lots, and roads. A semi-transparent orange horizontal band is overlaid across the middle of the image, containing the text 'annual report 2012'.

annual report
2012

**BUILD
TORONTO**



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letter from the vice chairman and president & CEO

More than three years ago, the City of Toronto formed BUILD TORONTO out of a decision to generate greater value from its real estate holdings. Every year since, our corporation has been making important progress in developing, or preparing for sale, the City's underutilized properties for city-wide benefit and improvement.

This process began with a strong governance structure based on a hybrid Board that had both public and private sector expertise. The executive officers then assembled a team experienced in real estate investment and development that would work closely with the City's Real Estate Services to identify underutilized properties that have the potential to generate more value and City-Building benefits. Our team then focused on setting up a business with disciplined and accountable processes to meet the objectives set out by our Shareholder.

In 2012, we saw some of our most significant achievements to date. We generated sales revenue of approximately \$94 million and, in collaboration with the City, grew our real estate portfolio's balance sheet to approximately \$294 million.

In carefully managing a portfolio of properties and strategically acting on certain property transactions before the residential high-rise market softened in late 2012, we were able to generate important returns for our Shareholder. These returns are vital in ensuring we have the financial capital to continue to invest in our development projects.

We are pleased to report that we have made important advancements in these development projects. In 2012, we submitted development applications to the City of Toronto for redevelopment of the Ordnance Triangle in Liberty Village, 411 Victoria Park Avenue in Scarborough, 505 Richmond Street in downtown Toronto and 28 Bathurst Street, at the foot of Bathurst Street and Front Street. We also completed crucial environmental investigations and worked in collaboration with industry partners to understand the challenges and opportunities on a number of our properties.

The following are some of the important successes achieved as part of our development work in 2012.

- Successfully secured a long-term and sustainable home for **Eva's Phoenix**, which currently operates its youth programming and housing initiatives on City-owned land within the **Ordnance Triangle**. We have incorporated this new purpose-built facility within our new development at **505 Richmond Street**.
- Saw record market interest for our 65-storey **TEN YORK** residential building, a joint venture partnership we developed with Tridel.
- At **411 Victoria Park Avenue** in Scarborough, we collaborated with City of Toronto Parks, Forestry and Recreation and the local community to reconfigure and enhance four and a half acres of park space within the redevelopment of a quarry dating back to the 1930s.
- Reached an agreement on a **master plan development** on a vacant parcel of railway land south of the Fort York Boulevard. This project will include schools, a community centre, a daycare centre and affordable housing.

In addition to the important development work achieved, part of our success lies in the financial return we are able to generate for the City of Toronto. BUILD TORONTO's Board of Directors approved the delivery of a \$10 million interim dividend to our Shareholder from our 2012 operations, bringing our total dividend to \$30 million to the City.

On a personal note, we would like to thank Blake Hutcheson, who stepped down as our Board of Directors Chairman in early 2013. Blake was instrumental in the creation of BUILD TORONTO and in shaping our mandate. As one of the visionaries behind the concept of BUILD TORONTO, Blake recognized the opportunity for partnership in unlocking the inherent value in city real estate.

We look forward to working together to generate long-term value and shared City-Building successes for the City of Toronto and those who live, work and play here.

J. LORNE BRAITHWAITE
President & CEO

DOUG FORD
Vice Chairman







report to the
shareholder

build toronto overview

HISTORICAL OVERVIEW

As a result of recommendations from various expert advisory committees, panels and reports, the City of Toronto determined a change was needed in how the City managed its land assets. To help make Toronto more prosperous, the City established BUILD TORONTO as an arm's-length, professional real estate corporation to fully leverage its underutilized real estate.

The company was incorporated in 2009, and in May 2010 was officially launched as the City's independent and self-funding real estate and development corporation. Since its inception, BUILD TORONTO has grown into an "investment" real estate and development corporation to support long-term legacy cash flow. Reporting to a Board of Directors, made up of experienced real estate executives and leaders from various City departments, the company has a unique focus on both Value Add Land Sales and long-term Development.

The 2009 Shareholder Direction establishes the corporation's objectives, its governance requirements and the oversight of financial matters, including reporting and performance. The 2009 Shareholder Direction also defines the relationship between BUILD TORONTO, the City's Real Estate Services and the City Manager's Office.

Please visit www.buildtoronto.ca to view the 2009 Shareholder Direction, along with a full list of foundational documents.

MANDATE

To create value from the City's underutilized real estate assets and generate a net financial return to the City.

VISION

To maximize value in a responsible, innovative and integrated manner, creating City-Building opportunity and enhancing Toronto's economic competitiveness.

OUR APPROACH TO DEVELOPMENT

BUILD TORONTO is a hybrid organization that takes the best of the private sector and adds the bench strength of the public sector to generate world-class results. With a broad mandate, BUILD TORONTO has the flexibility to develop innovative solutions in applying its development expertise.

BUILD TORONTO's approach to providing the City with a financial dividend is taken within the framework of supporting City-Building results. The company defines and measures success by the Fiscal and Economic, Social and Environmental benefits that it creates for the City of Toronto and those who live, work and play here. These include:

- Enhanced employment opportunities, property taxes, development fees and the economic impact of construction;
- A focus on quality, urban and sustainable design, transit intensification, brownfield remediation and environmental preservation; and
- The creation of public realm, neighbourhood regeneration, mixed-use developments and the integration of affordable housing, acting as a catalyst for further responsible development.

WORKING WITH THE CITY OF TORONTO

The City of Toronto is the sole Shareholder of BUILD TORONTO. As an arm's-length corporation, BUILD TORONTO works in partnership with the City's Real Estate Services, the City Manager's Office and several City departments to create value and deliver on the City's objectives.

As the City transfers properties, BUILD TORONTO has a responsibility to manage, develop, market and optimize value, with the approval of its Board of Directors. Working closely with local Councillors and community members, the company focuses on site development objectives to generate shared successes to benefit local communities and the City.

2012 year in review

Generated sales revenue of \$94 million from property transactions...

In 2012, Toronto's real estate market generally remained strong, but experienced some softening in demand for residential high-rise late in the year. BUILD TORONTO, like many other developers, made the decision to accelerate sales, specifically our Value Add Land Sales, earlier in the year to realize important returns. With the approval of our Board, we strategically moved on assets within our portfolio that had the potential for greater valuation in the short-term.

To generate this value, we invested in a number of areas to prepare these properties for future development. We evaluated and analyzed their potential, and then, depending on the project, moved them through various stages of pre-development, such as planning, zoning, trade area analysis, due diligence, environmental analysis, etc.

Once our investment in these lands was complete, we engaged in thorough financial due diligence to finalize their sale. Following this strategy, we successfully completed ten property transactions in 2012, representing approximately 20 acres across the City. Our top-line sales revenue of \$94 million is almost three times our reported top-line sales revenue in 2011.

collaborative planning

Any growing city needs an urban blueprint to set its direction. In Toronto, there are guidelines and standards in place to help build a sustainable city that fosters creativity and growth. It is really when we work collaboratively with City Planning that we find creative solutions to meet the City's future challenges. Proper land use planning and a strong City expertise allow us to plan for development that contributes to what makes Toronto vibrant, dynamic and sophisticated.

CARLO BONANNI
DIRECTOR, DEVELOPMENT PLANNING

As a Registered Professional Planner with a Masters of Environmental Studies, Carlo brings extensive experience in municipal land use planning, with particular emphasis on downtown and infill development.



A man with short dark hair, wearing a dark grey suit jacket, a light blue checkered shirt, and a red tie with a white geometric pattern. He has his arms crossed and is smiling slightly. The background is a blurred grey wall with vertical lines.

financial viability

It starts with an idea – a vision of what can be created on a parcel of land. It's turning that idea into something tangible that is at the heart of the development engine. Through proper financial due diligence and analysis, we evaluate cost, risk, liability and profitability for future project scenarios. It is only through successful developments, those that generate strong economic value, that we can deliver the environmental and social benefits that add to the urban fabric of the City.

PAV SANGHERA
SENIOR FINANCIAL ANALYST

A Chartered Accountant, Pav has extensive experience in the design, construction and review of financial models used in operations and strategic planning.



ensuring the future
development of 20 acres of
underutilized city-owned land...

2012 PROPERTY TRANSACTIONS

The following is a list of transactions completed in 2012, some of which are Value Add Land Sales, and some of which are transactions carried out as part of our development agreements.

60 ATLANTIC AVENUE

Shortly after the first quarter, we secured the sale of 60 Atlantic Avenue, a 0.91-acre property within the rapidly growing Liberty Village. Completing the appropriate feasibility study, massing design and engineering analysis, we found a developer who saw our vision for a mixed-use complex, integrating the existing two-and-a-half-storey brick building on site. Hullmark Development Ltd. is planning to reuse the historically significant building for employment use, including retail and office.

64-70 CORDOVA AVENUE

We worked through various environmental and site constraints to create a better opportunity for the 3.3-acre site north of Islington Subway Station. We secured a transaction with Tridel to develop an integrated high-density residential neighbourhood on a strategic, transit-connected site.

4334 AND 4340 LAWRENCE AVENUE EAST

We leveraged our development and valuation expertise to facilitate the assembly of land to enable development that wouldn't occur otherwise. We negotiated a transaction with the private owner of a parcel of land located in between 4334 and 4340 Lawrence Avenue East so that a residential development could be accomplished across all three sites. Plans for the development include 24 housing units at comparable prices in the neighbourhood, offering a new investment initiative in this area of Scarborough.



ORDNANCE TRIANGLE Proposed rendering of the 7.6-acre redevelopment.

ORDNANCE TRIANGLE

We secured important agreements for one of our signature sites, a 7.6-acre parcel of underutilized land just outside of Liberty Village. Until recently, the lands had fragmented ownership. As part of our plan to see a comprehensive and unified development, we partnered with Diamond Corp., the owners of the privately held lands, to develop the entire quadrant. The proposed plan includes a new integrated mixed-use community with a 3.9-acre public park; helping to facilitate the Fort York Pedestrian and Bicycle Bridge and create an eight-park pedestrian connection to the waterfront.



150 SYMES ROAD Heritage designated industrial building.

150 SYMES ROAD

We completed a transaction for a 5.5-acre site that was once the location for an incinerator at St. Clair Avenue and Weston Road. By providing financing through the creative use of a vendor take-back mortgage we facilitated an opportunity for the purchaser to invest their capital funds into repurposing the existing 1930s heritage-designated art deco industrial building.



10 YORK Rendering of the podium that will offer a pedestrian-friendly streetscape and an unobstructed link to the waterfront.



10 YORK STREET

We successfully closed on the land portion of our transaction as part of our joint venture partnership with Tridel. TEN YORK is a 65-storey residential development planned for the police impound and parking lot at Harbour Street and York Street. The innovative residential development will sit on the 0.63-acre site. Approximately \$5 million will be marked for the inclusion of affordable housing, and \$1.6 million towards public art. As one of Tridel's most successful residential launches, TEN YORK is over 86% sold and expected to break ground in the fourth quarter of 2013.

4750 EGLINTON AVENUE WEST

We secured a transaction with National Homes for 3.4 acres in Etobicoke. Following a thorough analysis and feasibility study of a larger site of 8.5 acres of land located on the north side of Eglinton Avenue West, we determined the most viable option would be a mixed-use development. Following a full marketing process, we selected National Homes for their luxury townhome vision, which will be a great complement to our vision for new high-quality retail at 4650 Eglinton Avenue West.

4620 FINCH AVENUE EAST

We secured the sale of a 2.33-acre site containing the former Charles O. Bick Police College at Brimley Road and Finch Avenue East. As an old police school that had stood vacant for over two years, the building had a very specialized use, making a tear-down likely. However, because of our commitment to environmental sustainability and natural preservation, we found a purchaser who was committed to reusing the existing building. We provided financing to secure the transaction with Northstar, an existing school operator in Toronto, to reuse the existing building and the property as a private high school for foreign students.

generating significant fiscal and economic spin-off benefits...

In helping to generate short-term value for these underutilized properties, we also help to realize important spin-off benefits.

When fully developed, the property transactions in 2012 will yield some 2,219 residential units and 464,993 sq. ft. GFA of non-residential space, and will generate the following spin-off fiscal and economic benefits:

- Accommodate 1,334 additional employees within the City.
- Generate \$15.8 million in development charge revenues to the City, as well as an additional \$3.8 million in building permit and planning approval fees.
- Increase assessed value by approximately \$914 million.
- Generate approximately \$10 million in combined annual taxes. The municipal share of property tax revenues amounts to \$6.6 million.
- Generate the following direct, indirect and induced impact from the construction:
 - \$666 million in value added to the Toronto economy;
 - 6,509 years of employment in Toronto;
 - \$386 million in labour income in Toronto; and,
 - \$394 million in annual tax revenue to the three levels of government.

Source: Economic & Fiscal Benefits Summary, Transactions and Approved Projects to December 31, 2012; urbanMetrics inc., November 28, 2012.

Note: Economic and fiscal benefits generated by the Ordinance Triangle include only those associated with the 30 Ordinance Street transaction of 2012.

environmental stewardship

When brownfields sit idle, everyone loses. It's our job to create opportunity from adversity. Addressing historical contamination through clean-up and risk management measures helps us redevelop and repurpose lands that have been sitting underutilized for years. By revitalizing brownfield sites, we breathe new life into communities and create more usable and safer spaces for residents.

TRACEY SMITH
SENIOR MANAGER,
ENVIRONMENTAL SERVICES

Tracey is an environmental specialist with over 18 years of experience in environmental project management in both the private and public sector.





ORDNANCE TRIANGLE Rendering of proposed mixed-use and integrated community.

and investing in long-term development and city-building projects.

The property transactions in 2012 provided us with the capital to devote to long-term development projects that will help generate significant City-Building results. Real estate and development is a long-term, high-risk, knowledge-intensive and capital-intensive business in which projects can take anywhere from three to five years to develop from conception to breaking ground. As a corporation at arm's-length from the City, continuing to invest in our core business of development will help to ensure we can continue to unlock the value of the City's underutilized real estate.



The following are some of the development milestones achieved in 2012:

- In collaboration with our development partner, we submitted a development application for the Ordnance Triangle redevelopment, comprising of underutilized land adjacent to Liberty Village. We are proposing a mixed-use development that includes a new park and the facilitation of a much-needed pedestrian and bicycle bridge.
- We saw record-breaking sales for condo units at Ten York, a downtown police impound and parking lot that we are redeveloping into an iconic residential building with Tridel. We are pleased to report that we are expected to break ground 14-18 months ahead of schedule.
- We worked closely with the local Councillor and community members before submitting a development application for a mixed-use development at 411 Victoria Park Avenue. The plan includes low-rise residential, high-quality retail and programmed park space. As part of a comprehensive remediation program, we also completed important environmental investigations on this Scarborough quarry that dates back to the 1930s.
- Expected to be our largest environmental investment, we have conceptualized a brownfield redevelopment for 28 Bathurst Street. We have submitted a development application for a mixed-use community that includes a new public street, wide sidewalks and a shared bicycle path.
- We created a functional and economically viable master plan for the integrated development of three acres of land, part of the railway lands, just south of Fort York Boulevard. We also negotiated an agreement in principal with the City and the school boards for the development of new schools, a community centre, a daycare and affordable housing on the site.

Subsequent to the issuing of the Audited Financial Statements, BUILD TORONTO's Board of Directors approved the delivery of a \$10 million interim dividend to our Shareholder from our 2012 operations. A further dividend may be declared following confirmation of debt financing arrangements being finalized. In addition to our dividend, following a very successful year, we are able to continue to reinvest in the business to ensure the corporation and the City succeed in meeting long-term development goals and realizing the vision for City-Building.

strategic pillars

As part of its Shareholder Direction, BUILD TORONTO has developed a strategic plan to provide the key underpinning of the organization, as well as its broad goals and objectives. The following are the Strategic Pillars as outlined in the 2012-2016 Strategic Plan.

1 INVESTMENT IN THE DEVELOPMENT OF STRATEGIC REAL ESTATE ASSETS FOR THE LONG-TERM FINANCIAL BENEFIT OF THE CITY.

To fully realize its mandate, BUILD TORONTO must strike the appropriate balance between maximizing short-term revenue, through asset sales, and maximizing long-term value creation, through the development of long-term strategic assets and City-Building.

Strategic assets are well-located urban properties, usually transit-connected, that have high potential for development and long-term leases with corporate tenants who will sign high-quality covenants.

As BUILD TORONTO matures, and its mandate evolves from being a development corporation to a real estate investment corporation, management will further develop investment criteria and select the appropriate land portfolio for long-term holding.



2 VALUE ADD LAND SALES OF NON-STRATEGIC REAL ESTATE ASSETS FOR THE SHORT-TERM FINANCIAL BENEFIT OF THE CITY

Non-strategic assets are properties that lack the characteristics that make them highly desirable to office, retail or industrial tenants for long-term lease.

Value Add Land Sales generate returns for the Shareholder not only in terms of the proceeds from the sale but also in terms of the development levies, tax assessments and job creation that result from moving these properties to the private sector for productive use. Some of the proceeds of sales will also be used by BUILD TORONTO to invest in strategic long-term land assets.

BUILD TORONTO will maximize the potential return of Value Add Land Sale properties by using its expertise to advance sites as far up the land value chain as is appropriate, given the particular set of circumstances and timelines. That may involve solving land issues, creating development concepts, up-zoning properties to more appropriate and valuable uses and densities, pre-leasing, target marketing and skillful negotiation of sales agreements.

3 MAKING A DEFINED CONTRIBUTION TO CITY-BUILDING BY CREATING OUTCOMES THAT ACHIEVE THE CITY'S NON-FINANCIAL GOALS

City-Building is one of the fundamental principles upon which BUILD TORONTO was created. It is the unique value proposition of the organization that sets it apart from private sector real estate companies.

Many of BUILD TORONTO's individual projects have already made substantial City-Building investments, including funding for environmental clean-up, creation of new public spaces and parks, commitment to environmental sustainability in architecture and contributions to community and infrastructure.



value add land sales

Although BUILD TORONTO's primary activity is long-term development, there are certain properties that can generate important short-term returns. This requires the company's expertise in preparing these properties for sale and in finding the right developer for the projects. BUILD TORONTO calls these "Value Add Land Sales" because of the greater short-term value that can be generated, compared with a straight sale by a broker.

Properties transferred to BUILD TORONTO typically have various elements that make them challenging for future development. These may include historical contamination, long-term City tenants, difficult boundary lines, etc. BUILD TORONTO puts together a business plan to outline how to best move the properties through the various stages of pre-development. As part of the real estate and development cycle, this usually involves costly, thorough long-term planning and analysis. When done right, this work can significantly increase the property's value.



BUILD TORONTO'S property portfolio spans across the City of Toronto.

The way in which BUILD TORONTO adds value may include:

- Feasibility studies.
- Massing designs.
- Conceptual designs.
- Archeological assessments.
- Geological assessments.
- Environmental investigations and assessments.
- Engineering assessments.
- Planning and zoning analysis.
- Market and trade area analysis.
- Partnerships and joint venture arrangements.
- Additional land acquisition.
- Servicing analysis.



balanced portfolio

We have an exciting opportunity in front of us. The management and development of a portfolio comprising of City-owned land requires a unique balance of both public and business interests. We set appropriate property measures, perform economic studies and strategic research, and complete property valuations to ensure properties transferred out of the City portfolio can be maximized to achieve City-Building.

ANNA RITACCA
MANAGER,
STRATEGY & ASSET MANAGEMENT

Anna is a Registered Professional Planner and Professional Land Economist with real estate expertise in the areas of urban land economics, planning, strategic management and market data analysis.

fiscal and economic potential through the redevelopment of underutilized lands

As part of its ongoing efforts to monitor its effectiveness and accountability, BUILD TORONTO has completed a review and analysis of the economic and fiscal benefits generated by the development of some 37 separate real estate parcels under BUILD TORONTO's mandate throughout the City.

When fully developed, BUILD TORONTO's 2012-2016 Strategic Plan properties are projected to result in:

12,900

new residential housing units.

\$345

million discounted present value in additional property tax revenues over a 10 year period.

9,000

additional employees accommodated.

\$134

million in development levies and fees.





the team

BUILD TORONTO is led by a team with deep experience in public and private sector development. J. Lorne Braithwaite, BUILD TORONTO's President & CEO, is a dynamic and internationally known real estate developer with a strong strategic vision and business acumen gained through 35 years of experience in Canada and abroad.

BUILD TORONTO's Executive Officers include David Fiume, Senior Vice President & Chief Financial Officer; Don Logie, Senior Vice President, Development; John Macintyre, Senior Vice President, Corporate Development & Residential Projects; and Prakash David, Senior Vice President, Residential & Retail Development.

Rounding out BUILD TORONTO's Senior Management Team is Frank Bajt, Vice President, Land & Asset Management; Bruce Logan, Vice President, Corporate Affairs and Operations; Steven Trumper, Vice President, General Counsel & Corporate Secretary; and Michael Whelan, Vice President, Development.

The Board is pleased to welcome the new Directors who joined in 2012: Councillor Peter Milczyn, Ward 5, and Chair of the City's Planning and Growth Management Committee; Josie Scioli, the new Chief Corporate Officer for the City of Toronto; and Ian MacKellar, a senior executive with over 25 years of experience in the real estate industry. The Board would like to make special mention of Bruce Bowes, the former Chief Corporate Officer for the City of Toronto, who was a BUILD TORONTO Board Director from 2009 until 2012. As one of the first to join the Board of Directors in 2009, Bruce was instrumental in building the relationship between BUILD TORONTO and the City. Once again, the Board would like to thank Blake Hutcheson for his time and commitment. The Board would also like to welcome Stuart Lazier, a Board Director since 2009, and operating partner and co-founder of Fiera Properties, as the new Chair.



board of directors



STUART LAZIER CHAIRMAN

Stuart Lazier is the Chief Executive Officer of Fiera Properties Limited, a \$500 million national real estate investment management business, and President of Axia Corporation, an investment holding company that invests in private equity strategies in Canada.

Prior to his roles at Fiera Properties Limited and Axia Corporation, Stuart was co-founder and partner with KingSett Capital Inc., President of O&Y Enterprise and National Managing Partner of Enterprise Property Group.

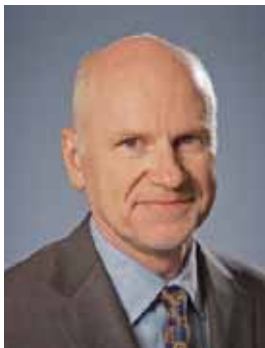
Resigned as Chairman and Director effective May 10, 2013.



COUNCILLOR DOUG FORD VICE CHAIRMAN

Councillor Doug Ford represents Ward 2, Etobicoke North. A life-long resident and involved community member of Etobicoke, Doug is the son of late MPP Doug Ford Sr. and brother of Mayor Rob Ford.

Doug has over 25 years of international and domestic business experience, most recently as President of Deco Labels & Tags, which employs 250 people in Toronto, Chicago and New Jersey.



DAVID BARRY DIRECTOR

David Barry is a renowned real estate executive. Most recently, David was the Executive Vice President and Portfolio Manager at Bentall Kennedy in his most recent role. Working at the largest real estate investment advisory and services organizations in Canada, David had overall responsibility for the PenRetail opportunity funds and other specialty funds.

Formerly with RT Realty Advisors and The Prudential Insurance Company of America, David has over 25 years experience in the real estate investment industry in Canada.



PAUL FINKBEINER DIRECTOR

Paul Finkbeiner is President of GWL Realty Advisors Inc., one of Canada's largest real estate investment advisors and a wholly owned subsidiary of Great-West Life Assurance Company. Paul is responsible for the overall management and growth of GWL Realty Advisors' \$12 billion real estate portfolio, including strategic direction, business development, asset and property management and specialized real estate advisory services.

Paul has over 22 years' experience in the real estate industry, and previously worked for Trizec Corporation, Brookfield Properties and Trilexa Shopping Centres.



IAN MACKELLAR DIRECTOR

Ian MacKellar is a senior executive with over 25 years of experience in the real estate industry in Canada.

For over seven years, Ian was Executive Vice President and Chief Financial Officer of Cadillac Fairview, one of the largest commercial property owners in Canada. Ian was also a Partner at KPMG for over 10 years in the real estate practice.



COUNCILLOR PETER MILCZYN DIRECTOR

Councillor Peter Milczyn represents Ward 5, Etobicoke-Lakeshore. In addition to sitting on the Board of Directors for BUILD TORONTO, Peter is currently Chair of the City's Planning and Growth Management Committee, TTC Commissioner, Executive Committee and represents Council at the Toronto and Region Conservation Authority.

Prior to being first elected as Councillor with the former City of Etobicoke in 1994, as an architect, Peter formed PZM Design - a design, development and architectural consulting firm.



JOSIE SCIOLI DIRECTOR

Josie Scioli is the new Chief Corporate Officer for the City of Toronto. She is responsible in leading the City's Facilities Management, Real Estate and Fleet Services Division.

Prior to her new role, Josie was the Chief Executive Officer at Housing Services Inc. (hsi), one of Canada's largest multi-residential maintenance and construction service providers. Josie also has 18 years of progressive experience as a senior leader at Bell Canada.



UCAL POWELL DIRECTOR

Ucal Powell is the Executive Secretary Treasurer of the Carpenters' District Council of Ontario, an affiliation of 20 Local Unions representing approximately 21,000 working men and women. Ucal first joined the Carpenters' Union in 1970 and has become the driving force behind the success it enjoys as one of Ontario's most progressive and modern labour organizations.



BRIGITTE SHIM DIRECTOR

Brigitte Shim is a Principal at Shim-Sutcliffe Architects and an Associate Professor at the University of Toronto's John H. Daniels Faculty of Architecture, Landscape and Design. Her firm has been honoured with eleven Governor General's Medals and Awards for Architecture from the Royal Architectural Institute of Canada, along with design recognition from the American Institute of Architects, and the American and Canadian Wood Councils awards program.



KEN SILVER DIRECTOR

Ken Silver is Senior Vice President, Corporate Strategy and Real Estate, with Canadian Tire Corporation Limited, and President of Canadian Tire Real Estate Limited, a subsidiary company. Ken is accountable for all real estate development, construction, disposition and property management activities for Canadian Tire and its business units. He is also responsible for the Corporation's strategy development, business development and sustainability initiatives.

Ken has spent more than 25 years in the development and retail industries in Canada and the United States, with experience in retail, residential, industrial and commercial development.



COUNCILLOR MICHAEL THOMPSON DIRECTOR

Councillor Michael Thompson represents Ward 37, Scarborough Centre, and is the Chair of the Economic Development and Culture Committee and Vice Chair of the Toronto Police Services Board. He is a strong advocate for community-based programs for business development, public safety and education.

Prior to being elected in 2003, Michael worked in the financial services industry and later founded and ran a successful business services company.



MIKE WILLIAMS DIRECTOR

Mike Williams is the General Manager of the Economic Development and Culture Division of the City of Toronto. He is responsible for leading the team that contributes to an economically strong and culturally vibrant city with a high quality of life, advancing Toronto's prosperity, opportunity and livability. In addition to BUILD TORONTO, Mike represents the City of Toronto on the following boards: Casa Loma Corporation, Invest Toronto, Toronto Financial Services Alliance, Toronto Port Lands Company and is ex officio on the board of Tourism Toronto.

For most of his career, Mike worked in senior management in consulting, sales, marketing and international operations with a variety of Canadian and U.S. companies.

executive officers



J. LORNE BRAITHWAITE PRESIDENT & CEO

J. Lorne Braithwaite is an entrepreneurial developer, visionary and industry leader with specialized expertise in regional mall real estate and retailing across Canada.

Prior to joining BUILD TORONTO, Lorne was Founder, Chairman, President and CEO of Cambridge Shopping Centres, where he amassed 40 large enclosed malls after leading the leveraged management buyout in 1980. Internationally, Lorne served as the Worldwide Chairman of the International Council of Shopping Centres 1995 to 1996. He was President of the Canadian Institute of Public and Private Real Estate Companies (formerly CIPREC, now REALpac) from 1995 to 1997.



DAVID FIUME SENIOR VICE PRESIDENT & CFO

David Fiume is a Chartered Accountant with over 20 years of senior executive experience in accounting, finance and operations in the public and private real estate sector with extensive expertise in joint venture partnerships, securing financing and acquisitions.

David was most recently the President & Chief Executive Officer at Retrocom Mid-Market REIT. He led various successful transactions including the acquisition of \$55 million dollars of properties and a \$20 million public offering. David was also President and Chief Executive Officer at Telepanel Systems Inc., Vice President, Finance and Treasury at Lehndorff, Chief Financial Officer at Camreal Management Inc., and Audit Manager at KPMG.



PRAKASH DAVID

SENIOR VICE PRESIDENT, RESIDENTIAL & RETAIL DEVELOPMENT

Prakash David is a senior real estate executive and lawyer with extensive experience in real estate portfolio management, acquisitions and dispositions, and development, including approvals, leasing, financing, and construction.

Previously, Prakash was a Portfolio Leader at Smart!Centres heading up asset management and development of over \$1 billion of unenclosed retail centres in Ontario. Prior to that, he was Smart!Centres' Senior Director of Acquisitions and Development. Prakash began his career as a real estate lawyer in Toronto.



DON LOGIE

SENIOR VICE PRESIDENT, DEVELOPMENT

Don Logie is a senior real estate executive with extensive experience in the development and operation of commercial, industrial and residential real estate, with particular emphasis on mixed-use developments.

In 2008 Don was Acting President & CEO and as well as Vice President, Development for the City of Toronto Economic Development Corporation (TEDCO). Prior to TEDCO, Don performed various development and asset management roles for Magna International, O&Y Enterprise, Brookfield Properties and Markborough Properties Inc. His international experience includes work in the United States, Europe, Mexico, the United Kingdom, China, Africa and the Middle East.



JOHN A. MACINTYRE

SENIOR VICE PRESIDENT, CORPORATE DEVELOPMENT & RESIDENTIAL PROJECTS

John Macintyre has more than three decades of business and government experience, holding senior leadership roles in both the amalgamated City of Toronto and the former City of Etobicoke.

Prior to his appointment at BUILD TORONTO, John was a Vice President of the City of Toronto Economic Development Corporation (TEDCO) and the Acting CEO of Invest Toronto. He is also a Director of the Toronto Blue Jays Charitable Foundation and a Director of The Governor General's Canadian Leadership Conference

management discussion and analysis

BUILD TORONTO continues to exceed expectations in its third full year of operations. Highlights of the 2012 year are:

- Assets have grown by over \$30 million to \$294 million.
- Shareholder's Equity has increased to almost \$229 million, up \$43 million.
- Paid \$20 million dividend in 2012 to our shareholder, the City of Toronto.
- Sales were \$94 million, more than \$60 million higher than last year.
- Increases in fair market values total \$13 million over three years.
- Net Income was approximately \$39 million for the year ended 2012.

Last year BUILD TORONTO adopted International Financial Reporting Standards (IFRS) based on Management's evaluation of the criteria applicable to the Company's business and its determination that IFRS is the most appropriate reporting framework. BUILD TORONTO continues to use IFRS for the fiscal years ended December 31, 2012 and 2011. The adoption of IFRS has had a significant impact on the manner in which the financial statements are presented and on the financial amounts reported (See note 4 of the Financial Statements for further information). BUILD TORONTO values "acquired" properties at fair market value when accepting transfers of surplus property from the City of Toronto after the completion of due diligence. The properties acquired by BUILD TORONTO are listed at the end of the MD&A.

BUILD TORONTO has acquired a significant number of assets over the past three years, which are initially recorded at fair market value, some of which have subsequently been sold. These assets are classified on the Balance Sheet in two main categories:

- (i) Real Estate Inventory; properties that BUILD TORONTO plans on selling in normal course and;
- (ii) Investment Properties; properties that have been acquired with the objective of holding the asset for a period of time to earn rentals, for capital appreciation or both.

Subsequent to initial recognition, Investment Properties are carried at fair value, and revalued every year, with the increase or decrease recorded as income for the year.

Real Estate Inventory has decreased by \$33.2 million to \$98.8 million at December 31, 2012, compared to \$132.0 million at December 31, 2011. This decrease in the Real Estate Inventory balance is the result of the recording of the cost of sales (removal from inventory of the property's value when it is sold) offset by additions through capitalized costs and acquisitions from the City of Toronto and two small parcels of adjoining land purchased from external parties.

At December 31, 2012, Build had Investment Properties of \$60.8 million versus \$49.7 million at the end of 2011. The increase in the Investment Property balance is due to the addition of one property from the City of Toronto, capitalized costs and the Net Gain from fair value adjustments of \$5.2 million.

As part of its strategy to maximize the return on real estate sales, BUILD TORONTO may utilize shorter term financing (appropriately secured) to enlarge the potential pool of purchasers and encourage higher offers. At December 31, 2012, BUILD TORONTO has short and longer term vendor take-back mortgages, which are registered against the properties that were sold, in the amount of \$36.9 million recorded under Loans Receivables. Overall, BUILD TORONTO's total assets have increased by approximately \$30 million to \$293.8 million at December 31, 2012, from \$263.0 million at December 31, 2011 as a result of the activity noted above.

Liabilities at December 31, 2012 include an increase in the accrual for environmental costs of \$6.8 million to \$26.8 million at December 31, 2012 from \$20.0 million at the end of 2011. The provision for future environmental costs is recorded upon the acquisition of certain real estate assets for clean-up and demolition costs, and is reduced when those costs are expended. The Dividend Payable of \$20 million was accrued when declared in 2011 and paid during 2012 to our single Shareholder, the City of Toronto. Longer term liabilities related to Toronto Waterfront Studios Inc. (Pinewood) of \$32.8 million has remained constant from 2011 to December 31, 2012.

Although the real estate properties acquired by BUILD TORONTO from the City of Toronto are on a nominal basis with "physical" liabilities legally assumed, such as environmental liabilities; they are initially recorded at their fair value when they are acquired with the difference between fair value and consideration paid recorded in Contributed Surplus, which is a component of Equity. As noted above, costs of acquiring these properties can often be substantial if there are issues to be remediated, such as environmental issues, geotechnical concerns, etc. and these are accrued upon acquisition. It is due to acquisitions and the Net Income for the year, that the Equity has grown to \$228.6 million at December 31, 2012 from a December 31, 2011 amount of \$185.9 million.

Sales of Real Estate Inventory for the year ended December 31, 2012 was \$94.2 million, as compared to \$33.1 million for the corresponding period in 2011. Cost of sales was \$54.6 million for the year ended December 31, 2012, versus \$22.4 million for December 31, 2011, while the gross profit from these years were \$39.6 million and \$10.6 million respectively. When BUILD TORONTO records sales under IFRS, the accounting profit is reduced by the fair market value cost of sales of these assets, which results in a lower profit from real estate sales than if the sales were recorded at their actual nominal cost. The deduction of the majority of the cost of sales are non-cash items, therefore the cash generated by these sales is actually the full sales proceeds, as shown on the Consolidated Statement of Cash Flow.

This IFRS accounting treatment demonstrates the true “value add” of the BUILD TORONTO approach by influencing values and using a professional real estate framework to ensure that we leverage our portfolio for the benefit of our Shareholder, both financially and through extensive City-Building initiatives within the projects.

Investment Property net property income for the year ended December 31, 2012, increased by approximately \$0.9 million to \$1.45 million from \$0.55 million for the corresponding period in 2011, due to an accrual for the receipt of property tax rebates related to Pinewood Studios.

Net gain from fair value adjustments to investment properties, which is the incremental increase in the value of the investment properties year over year, was \$5.2 million during the year ended December 31, 2012 versus \$4.4 million during the year ended December 31, 2011, totaling over \$13 million of positive value increases since inception. General and administrative expenses of \$7.5 million for the year ended December 31, 2012 were generally flat with the prior year period costs of \$7.4 million, as we worked through the conclusion of the shared cost arrangement with a sister company that ended during 2012.





There was a one-time item recorded for the year ended December 31, 2011 that was not recorded in the current year, namely the Net gain on the derecognition of loans receivable and payable of \$1.1 million as a result of arranging a financing facility for Pinewood Studios. Interest income was approximately \$0.7 million higher in the year ended December 31, 2012 versus the corresponding period in 2011 due to the increase in vendor take-back mortgages.

Net Income and total comprehensive income for the year ended December 31, 2012 was \$38.8 million, an increase of \$30.2 million over last year's amount of \$8.6 million.

During the year ended December 31, 2012, BUILD TORONTO's cash decreased slightly from \$41.3 million at December 31, 2011 to \$40.0 million at December 31, 2012, mainly as a result of the payment of the dividend to the City in the amount of \$20 million and the issuance of vendor take-back mortgages. Cash from operations for the year ended December 31, 2012 was \$20.7 million, reflecting the add-back of the non-cash cost of sales of \$53.8 million noted above. For the year ended December 31, 2011, cash flow from operations was \$26.4 million, with an add-back of \$22.5 million of non-cash cost of sales.

BUILD TORONTO continues to generate financial returns and facilitate "City-Building" initiatives for its Shareholder, the City of Toronto. As well, Management is continually working to improve processes, both internally and externally, to ensure that we are efficient and effective in the execution of our mandate.



The 28 properties acquired by BUILD TORONTO since inception are:

INVENTORY AND INVESTMENT

225 Commissioners Street (Pinewood)
1035 Sheppard Avenue W (Downsview)
301 Rockcliffe Boulevard
30 Tippet Road
50 Wilson Heights Boulevard
4650 Eglinton Avenue W
1978-2000 Lakeshore Boulevard
75 Billy Bishop Way
805 Don Mills & Eglinton
297 Sixth Street
4050 Yonge Street
383 Old Weston Road
260 Eighth Street
28 Bathurst Street
2 Bicknell Avenue
411 Victoria Park Avenue

PARTNERSHIPS

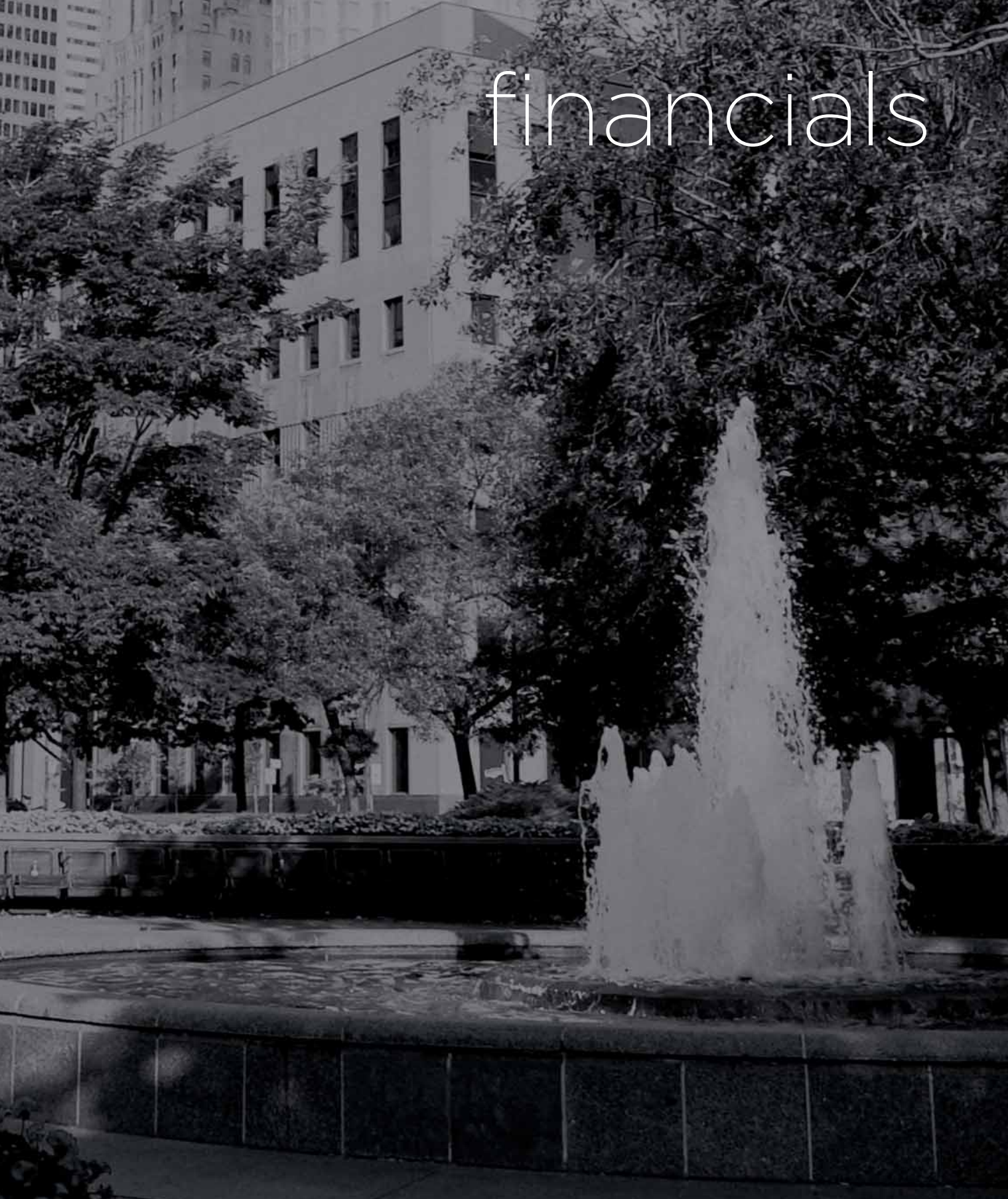
120 Harbour (10 York Street)
Ordnance Triangle

SOLD IN 2010 TO 2012

60 Atlantic Avenue
64-70 Cordova Avenue
4750 Eglinton Ave W
4780 Eglinton Avenue W
4620 Finch Avenue E
154 Front Street
120 Grangeway Avenue
4334-4340 Lawrence Avenue E
Midland & St. Clair
150 Symes Road



financials





May 7, 2013

Independent Auditor's Report

To the Shareholder of Build Toronto Inc.

We have audited the accompanying consolidated financial statements of Build Toronto Inc., which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2012, 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 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
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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. as at December 31, 2012 and its financial performance and its cash flows for the year ended December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Build Toronto Inc.
Consolidated Balance Sheets

	Note	December 31, 2012 \$	December 31, 2011 \$
Assets			
Current assets			
Real estate inventory	5	98,827,316	132,052,448
Pre-acquisition costs		1,319,884	965,290
Due from related parties	6	4,705,327	77,271
Amounts receivable	7	1,964,740	114,497
Prepaid expenses		168,372	41,164
Loans receivable	14	23,294,466	-
Short-term investments	8	30,360	30,000
Cash and cash equivalents	8	40,042,225	41,297,072
Total current assets		170,352,690	174,577,742
Non-current assets			
Investment property	9	60,751,719	49,738,697
Investment in equity accounted investments	10	1,998,447	2,024,402
Investment in joint venture	11	12,000,000	-
Property, equipment and intangible assets	12	935,941	1,067,174
Amounts receivable	13	1,329,787	855,437
Loans receivable	14	46,458,365	34,899,648
Total non-current assets		123,474,259	88,585,358
Total assets		293,826,949	263,163,100
Liabilities			
Current liabilities			
Due to related parties	27	-	811,366
Amounts payable and other liabilities	15	5,547,185	3,607,864
Environmental provision	17	85,000	64,949
Dividend payable	16	-	20,000,000
Total current liabilities		5,632,185	24,484,179
Non-current liabilities			
Environmental provision	17	26,760,117	19,945,117
Debt	18	32,813,750	32,814,667
Total liabilities		65,206,052	77,243,963
Shareholder's Equity			
Total equity		228,620,897	185,919,137
Total liabilities and equity		293,826,949	263,163,100

Approved by the Board of Directors

Director

Director

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

Build Toronto Inc.**Consolidated Statements of Comprehensive Income
For the years ended December 31**

	Note	2012 \$	2011 \$
Real estate inventory			
Sales revenue		94,242,562	33,078,167
Cost of sales		<u>(54,615,086)</u>	<u>(22,454,649)</u>
Gross profit from sale of real estate inventory		<u>39,627,476</u>	<u>10,623,518</u>
Investment property			
Rental revenue	20	2,118,881	1,645,554
Property operating costs		<u>(661,214)</u>	<u>(1,100,492)</u>
Net property income		<u>1,457,667</u>	<u>545,062</u>
Income from inventory sales and property rentals		41,085,143	11,168,580
Other operating income and expenses			
Net gain from fair value adjustments to investment property	9	5,161,057	4,410,602
Share of net loss from equity accounted investments	10	(415,955)	(698,865)
General and administrative expenses	21	(7,523,153)	(7,404,936)
Project investigative costs		(30,380)	(150,223)
Depreciation and amortization	12	<u>(236,870)</u>	<u>(211,558)</u>
		<u>(3,045,301)</u>	<u>(4,054,980)</u>
Operating profit		38,039,842	7,113,600
Other income and expenses			
Guarantee fee		147,737	192,526
Net gain on derecognition of loans receivable and payable	22	-	1,089,351
Interest income	23	1,613,433	997,742
Finance costs		<u>(999,226)</u>	<u>(790,450)</u>
		<u>761,944</u>	<u>1,489,169</u>
Net income and total comprehensive income for the year		<u>38,801,786</u>	<u>8,602,769</u>

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

Build Toronto Inc.

Consolidated Statements of Changes in Equity For the years ended December 31

	Note	Common shares \$ (note 19)	Contributed surplus \$	Retained earnings (deficit) \$	Total shareholder's equity \$
Balance – January 1, 2011		1	106,610,424	5,049,180	111,659,605
Net income for the year		-	-	8,602,769	8,602,769
Transfer of properties from the shareholder					
Real estate inventory	27	-	70,582,337	-	70,582,337
Investment property	27	-	4,300,000	-	4,300,000
Other	27	-	10,774,426	-	10,774,426
Dividend declared	16	-	-	(20,000,000)	(20,000,000)
Balance – December 31, 2011		1	192,267,187	(6,348,051)	185,919,137
Net income for the year		-	-	38,801,786	38,801,786
Transfer of properties from the shareholder					
Real estate inventory	27	-	1,796,419	-	1,796,419
Investment property	27	-	1,203,581	-	1,203,581
Other	27	-	899,974	-	899,974
Balance – December 31, 2012		1	196,167,161	32,453,735	228,620,897

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

Build Toronto Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

	Note	2012 \$	2011 \$
Cash provided by (used in)			
Operating activities			
Net income for the year		38,801,786	8,602,769
Items not involving cash:			
Straight-line rent		(258,557)	(258,557)
Deferred lease inducement/escalations amortization		50,116	50,116
Share of net loss from equity accounted investments		415,955	698,865
Land contributed to joint venture		(12,000,000)	-
Project investigative costs written off		-	149,095
Net gain from fair value adjustments to investment property		(5,161,057)	(4,410,602)
Net gain on derecognition of loans receivable and payable		-	(1,089,351)
Amortization of capitalized financing costs		-	2,326,275
Discount received from early repayment of loans		-	800,000
Amortization of discounts on receivables	25	(39,580)	136,587
Depreciation and amortization		236,870	211,558
Real estate inventory			
Additions		(13,117,169)	(2,184,651)
Cost of sales		53,773,791	22,454,649
Pre-acquisition costs		(1,199,214)	(410,514)
Changes in non-cash working capital	26	(40,822,956)	(676,919)
Cash provided by operating activities		20,679,985	26,399,320
Investing activities			
Investment property acquisitions and development costs		(1,438,835)	(674,466)
Additions to property, equipment and intangible assets		(105,637)	(86,820)
Advance to equity accounted investments		(390,000)	(361,281)
Repayment of loans receivable		917	25,578,255
Issuance of loans receivable		-	(32,814,667)
(Purchase) redemption of short-term investments		(360)	770,037
Cash used in investing activities		(1,933,915)	(7,588,942)
Financing activities			
Repayment of loan		(917)	(29,000,000)
Proceeds from new loans		-	32,814,667
Payment of dividends		(20,000,000)	-
Cash provided by (used in) financing activities		(20,000,917)	3,814,667
(Decrease) Increase in cash and cash equivalents during the year		(1,254,847)	22,625,045
Cash and cash equivalents - Beginning of year		41,297,072	18,672,027
Cash and cash equivalents - End of year		40,042,225	41,297,072

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

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

1. Organization

Build Toronto Inc. (the Company) was incorporated under the Ontario Business Corporations Act on November 13, 2008. The consolidated financial statements of the Company include the accounts of the Company and its consolidated subsidiaries. The Company is a wholly owned subsidiary of the City of Toronto (the City), created to maximize the value of underutilized real estate previously owned by the City. This is done within the framework of delivering a financial dividend to the City and to achieve city-building results. These include: enhanced employment opportunities, a focus on quality, urban design and environmental sustainability, and acting as a catalyst for responsible neighbourhood regeneration. As a municipal corporation under Section 149(1) of the Income Tax Act (Canada), the Company is exempt from income taxes. The address of its registered office is 200 King Street West, Suite 200, Toronto, Ontario, Canada.

On December 16, 2009, Build Toronto Holdings One Inc. (BTHOI), a wholly owned subsidiary, was incorporated to hold the investment and related obligations in Toronto Waterfront Studios Inc. (TWSI). On April 27, 2011, Build Toronto Holdings (Harbour) Inc. (BTHHI), a wholly owned subsidiary, was incorporated to hold the inventory and related obligations related to the property at 10 York Street, formerly 120 and 130 Harbour Street.

During 2012, another four wholly owned subsidiaries, Build Toronto Holdings (Ordnance) Inc., Build Toronto Holdings (York Mills) Inc., Build Toronto Holdings (Victoria Park) Inc. and Build Toronto Holdings (Tippett) Inc. were incorporated.

The Company's consolidated financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors on May 7, 2013, after which the consolidated financial statements may only be amended with the Board's approval.

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

The Company has been identified as an other government organization and accordingly prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investment property, which is measured at fair value.

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

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

Basis of consolidation

The consolidated financial statements comprise the financial statements of Build Toronto Inc. and its subsidiaries (including special purpose entities). Subsidiaries are fully consolidated from the date of inception, which is the date on which the company obtains control, and continue to be consolidated until the date such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Special purpose entities (SPEs)

An SPE is defined as an entity created to accomplish a narrow and well-defined objective. SPEs often are 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 Company has determined it is not a party in any SPEs.

Real estate assets

- **Real estate inventory**

Commercial development properties and land held-for-sale in the ordinary course of business are held as real estate inventory and measured at the lower of cost and net realizable value.

Capitalized costs include all expenditures incurred in connection with the acquisition of the property, assessment of environmental conditions, site surveys, appraisals, direct development and construction costs, and property taxes. For real estate inventory transferred by the City, the fair value of the property is deemed to be its cost at the date of transfer. General and administrative costs and selling and marketing costs are expensed as incurred.

The carrying value of transferred properties held as real estate inventory, including capitalized costs, are adjusted to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, based on prevailing market prices at the dates of the consolidated balance sheets and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

Cost of sales of real estate inventory is based on actual costs incurred. Selling costs are expensed directly to cost of sales.

- **Investment property**

Investment property comprises land held to earn rentals or for future development as investment property, or capital appreciation, or both.

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

Investment property is 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 surveys, appraisals, direct development and construction costs and property taxes during development. For property transferred by the City, the fair value of the property is deemed to be its cost at the date of transfer. Subsequent expenditure is capitalized to the investment property's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Subsequent to initial recognition, investment property is measured at its fair value at each reporting date. Related fair value gains and losses are recorded in net income in the period in which they arise. The fair value of investment property is estimated internally by the Company at the end of each reporting date. In addition to these internal property valuations, the Company will review the fair value of material investment property using an independent third party appraiser on a rolling basis over a period of three years or less, as determined by management. The internal property valuations prepared by the Company are based primarily on a discounted cash flow (DCF) model where the property generates rental income, which estimates fair value based on the present value of the property's estimated future cash flows. Estimated fair values are determined on a property by property basis. The DCF model is based on a detailed planning period of five years, within which the relevant real estate cash flow components are forecasted. After a detailed planning period of five years, a net present value is calculated for the remaining useful life based on the estimated cash flow in the final year of the detailed planning period. Where relevant, the DCF model uses market oriented figures including appropriate discount rates, market rental growth rates, vacancy rates and inflation rates.

Initial direct leasing costs incurred by the Company in negotiating and arranging tenant leases are added to the carrying amount of investment property and are amortized over the term of the lease. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment property and are amortized on a straight-line basis over the term of the lease as a reduction of investment property revenue.

- Pre-acquisition costs

Pre-acquisition costs include costs incurred in the investigative and pre-transfer stage. Pre-acquisition costs and project investigative costs, which will not benefit future periods or for which a project has been abandoned, are expensed as soon as it becomes evident there is no future value.

Equity accounted investments

The Company accounts for its investments in associates using the equity method of accounting. An associate is an entity over which the Company has significant influence, but not control.

The financial results of the Company's equity accounted investments are included in the Company's consolidated financial statements using the equity method, whereby the Company recognizes its proportionate share of earnings or losses.

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

The Company assesses, at least annually, whether there is objective evidence that its interests in equity accounted investments are impaired. If impaired, the carrying value of the Company's share of the underlying assets of an equity accounted investment is written down to its estimated recoverable amount, which is the higher of fair value less costs to sell and value in use, with any difference charged to net income.

Investment in joint arrangements

A joint arrangement is a contractual arrangement between the Company and other parties to undertake economic activities that require the unanimous consent of the parties sharing control in strategic financial and operating policy decisions relating to the activities of the joint arrangement. Joint arrangements that involve the establishment of a separate vehicle in which each party has an interest are considered to be joint ventures and are accounted for using the equity method as outlined above for associates. Where the Company undertakes its activities under joint arrangements through a direct interest in a joint operation's assets, rather than through the establishment of a separate entity, the arrangement is considered to be a joint operation and the Company's proportionate share of the joint operations assets, liabilities, revenues, expenses and cash flows are recognized in the consolidated financial statements and classified according to their natures.

Assets classified as held-for-sale

Assets and groups of assets and liabilities (other than real estate inventory), which comprise disposal groups, are categorized as assets held-for-sale where the asset or disposal group are available-for-sale in their 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 asset 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. Where an asset or disposal group is acquired with a view to resale, it is classified as a current asset held-for-sale if the disposal is expected to take place within one year of the acquisition and it is highly likely the other conditions referred to above will be met within a short period following the acquisition.

Property, equipment and intangible assets

Property, equipment and intangible assets include leasehold improvements, furniture and fixtures, software license, computer equipment and website development costs. Property, equipment and intangible assets 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:

Leasehold improvements	straight-line over the term of the lease
Furniture and fixtures, and software license	5 years straight-line
Computer equipment	3 years straight-line
Website development	3 years straight-line

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 recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to comprehensive income during the period in which they are incurred.

Property, equipment and intangible assets 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 net income or loss. The carrying amount is reduced by the impairment loss directly. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property, equipment and intangible assets 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.

Office occupancy costs, deferred lease inducement and deferred lease escalations

In 2010, the Company entered into an operating lease to occupy its current head office premises. Rent expense is recorded in office occupancy costs on a straight-line basis over the term of the lease. Differences between the straight-line rent expense and the payments as stipulated under the lease agreement are included in deferred lease escalations in amounts payable and other liabilities. The deferred lease inducement represents cash benefits the Company has received from its landlord pursuant to the lease agreement. Lease inducements received are amortized into office occupancy costs over the term of the related lease on a straight-line basis.

Contributed surplus

Since its incorporation in 2008, the primary sources of real property, which the Company is mandated to improve and hold for future cash flows (investment property) and sale (real estate inventory property), are City council deemed surplus land and deemed surplus property held by other City controlled entities.

Commercial development properties, land and investment property include properties declared surplus by the City that, after an assessment process by the Company, are accepted for transfer from the shareholder.

Transferred properties classified as real estate inventory are initially recorded at fair value. The Company utilizes third party valuations to determine the fair value of the properties and adjusts for estimated costs of outstanding necessary improvements required to bring similar properties to marketable status. Since valuations are not always available as at the date of transfer, the Company assesses the impact of the timing difference and adjusts the fair value accordingly.

Transferred properties classified as investment property are initially recorded at fair value. The Company utilizes third party valuations to determine the fair value of the properties. Since valuations are not always available as at the date of transfer, the Company assesses the impact of the timing difference and adjusts the fair value accordingly.

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The Company records the difference between the fair value at the date of transfer of the properties and the consideration paid, if any, as contributed surplus.

Revenue recognition

Revenue from the sale of developed sites and land sold to third parties is recognized when the agreement of purchase and sale is executed, the earnings process is virtually complete, the significant risks and rewards of ownership are transferred to the buyer and the Company does not have a substantial continuing involvement with the property to the degree usually associated with ownership. Revenue is recognized provided the agreement of purchase and sale is unconditional, the costs in respect of the property can be measured reliably and the collectibility of the remaining proceeds is reasonably assured. If these criteria are not met, proceeds are accounted for as deposits until all of the criteria are met.

The Company accounts for tenant leases as operating leases as the Company has retained substantially all of the risks and benefits of ownership of its investment property. Rentals from investment property include rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rents from tenants may include free rent periods and rental increases over the term of the lease and are recognized in revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is included in amounts receivable as straight-line rent receivable. Lease incentives provided to tenants are deferred and are amortized against revenue over the term of the lease. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Other income is recognized as earned.

Interest income is recognized using the effective interest method.

Dividends

Dividends to the shareholder are recognized as a liability in the period in which the dividend is approved by the Board of Directors and are recorded as a reduction of retained earnings.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

a) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise loan receivables, vendor-take-back mortgages, due from related parties, amounts receivable, short-term investments and cash and cash equivalents, and are included in current and non-current assets depending on their maturities.

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Loans and receivables are initially recognized at the amount expected to be received, less a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

b) **Financial liabilities at amortized cost**

Financial liabilities at amortized cost include amounts payable and other liabilities, debt and amounts due to related parties. Amounts payable and other liabilities and due to related parties are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

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 statements of 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 Company 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Short-term investments

Short-term investments with original maturities of more than three months are recorded at cost plus accrued investment income, which approximates fair value.

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Environmental provision

The cost of the Company's obligation to remediate land is estimated based on the present value of expected future environmental costs and is recognized in the period in which the obligation is incurred.

The present value of the environmental provision is determined based on a discount rate that takes into account the time value of money and the risks specific to the liability. The liability is reviewed at each reporting date to determine whether the discount rate is still applicable and to determine whether changes are required to the original estimate.

Changes to estimated future costs are recognized on the consolidated balance sheets by either increasing or decreasing the environmental provision. Any reduction in the environmental provision may not exceed the carrying amount of the corresponding asset. If it does, any excess over the carrying value is taken immediately to the consolidated statements of comprehensive income.

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 Company's accounting policies that have the most significant effect on amounts in the consolidated financial statements:

- Determination of whether the Company has joint control of an arrangement

In assessing that the Company has joint control of an arrangement, management considers whether decisions on relevant activities require the unanimous consent of the Company and the other party or controlled by one party alone.

- Determination of whether the Company has significant influence over its associates

In assessing that the Company has significant influence over its associates, management considers the rights and obligations of the various investors and whether the Company has the power to participate in the financial and operating policy decisions of the investees, but not control or joint control over those policies.

- Timing of recognition of properties transferred from related parties

Critical judgments are made by management in determining when to recognize properties transferred from related parties. Properties transferred from the City and other City controlled entities are recognized at the later of: (i) the time the City declares the property surplus, approves the transfer and the Company accepts the property; and (ii) when the Company receives the environment site assessment. The point at which it is considered probable that the future economic benefits associated with the property will flow to the Company is considered to be the point when the City commits to the transfer to the Company and the Company accepts the transfer. At this point, transfer of legal title from

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the City or other City controlled entity to the Company is considered to be an administrative process and virtually certain to occur.

- Determining approach and frequency of external appraisals for investment property

Management uses judgment in its approach to determining fair values of investment property. The fair values of these properties are reviewed regularly by management with reference to independent property appraisals and market conditions existing at the reporting date. The Company selects independent appraisers who are nationally recognized and qualified in the professional valuation of investment property and experienced in the geographic areas of the properties held by the Company. Judgment is also applied in determining the extent and frequency of obtaining independent appraisals, after considering market conditions and circumstances and the time since the last independent appraisal.

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 at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

- Fair value of real estate investment property at transfer date and period end

Determining the fair value of investment property involves significant estimates of discount rates, capitalization rates, market rental rates and growth rates, vacancy rates, inflation, structural allowances, lease terms and start dates, leasing costs, costs of environmental remediation requirements if any, and costs of pre-development, active development and construction activities, where applicable. The valuation inputs are derived from various sources of information, including third party sources including independent appraisals, environmental assessment reports, internal budgets and management's experience and expectations. Judgment is also applied in adjusting independent appraisals for the impact of any differences between the date of the appraisal and the date of measurement.

- Fair value of real estate inventory at transfer date

The fair value of real estate inventory involves significant estimates of the highest and best use of the property, maximum density achievable, potential zoning changes, costs of environmental remediation requirements, if any, and costs of pre-development, active development and construction activities, where applicable. The valuation inputs are derived from various sources of information, including third party sources including independent appraisals, environmental assessment reports, internal budgets and management's experience and expectations. Judgment is also applied in adjusting independent appraisals for the impact of any differences between the date of the appraisal and the date of measurement.

- Net realizable value of real estate inventory at period end

Commercial development properties and land held-for-sale in the ordinary course of business are stated at the lower of cost and net realizable value. In calculating net realizable value, management must

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estimate the selling price of the assets based on prevailing market prices at the dates of the consolidated balance sheets and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

- Impairment of financial assets (including equity accounted investments)

At each reporting date, management is required to assess whether its financial assets are impaired. The criteria used to determine whether there is objective evidence of impairment include: (a) significant financial difficulty of the borrower or investee; (b) delinquencies in interest or principal payments from the borrower; and (c) the probability the borrower or investee will enter bankruptcy or other financial reorganization. Assessing fair value of financial instruments require significant estimates of future cash flows and appropriate discount rates.

- Useful lives and impairment of property, equipment and intangible assets

The Company makes estimates and assumptions when assessing the possibility and amount of impairment of property, equipment and intangible assets. Such estimates and assumptions primarily relate to the timing and amount of future cash flows. The Company also makes estimates and assumptions as they pertain to the expected useful lives and residual values of property, equipment and intangible assets, which are reviewed at least annually.

- Carrying value of the environmental provision

The Company is required to make estimates and assumptions relating to its environmental provision, including estimates of future remediation requirements, timing and related costs.

4. Future accounting policy changes

IFRS 9, Financial Instruments (IFRS 9)

In November 2009, the IASB issued IFRS 9, as its first step in replacing IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 will be issued in three phases. The first phase, which has already been issued, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting.

IFRS 9 establishes two primary measurement categories for financial assets: (i) amortized cost; and (ii) fair value. Classification is based on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. Classification is made at the time the financial asset is initially recognized.

Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option will require fair value changes due to credit risk for liabilities designated at fair value through profit and loss generally to be recorded in other comprehensive income (OCI).

IFRS 9 amends some of the requirements of IFRS 7, Financial Instruments: Disclosures, including added disclosures on equity securities measured at fair value through OCI, and guidance on financial liabilities and

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derecognition of financial instruments. This standard is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

IFRS 10, Consolidated Financial Statements (IFRS 10)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) 12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements (IAS 27). This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company will implement IFRS 10 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

IFRS 11, Joint Arrangements (IFRS 11)

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions By Venturers. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company will implement IFRS 11 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

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

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company will implement IFRS 12 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurements. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases, does not reflect a clear measurement basis or consistent disclosures. This

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standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company will implement IFRS 13 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

Amendments to other standards

In addition to the issuance of new standards, as detailed above, there have also been amendments to existing standards, including IAS 19, Employee Benefits (IAS 19), IAS 27 and IAS 28, Investments in Associates (IAS 28).

Amendments to IAS 19 eliminate an entity's option to defer the recognition of certain gains and losses related to post-employment benefits and require remeasurement of associated assets and liabilities in OCI. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13, as outlined above. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company will implement these amendments in the consolidated financial statements where applicable effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

5. Real estate inventory

Real estate inventory, including investment in co-ownerships are as follows:

	2012 \$	2011 \$
Balance - Beginning of year	132,052,448	64,249,237
Acquisitions - transfers from the shareholder (note 27)	6,586,870	88,167,402
Acquisitions - from third-parties (a)	6,853,137	-
Development costs	6,264,032	2,090,458
Transfer from pre-acquisition costs	844,620	-
Transfer to cost of sales	(53,773,791)	(22,454,649)
Balance - End of year	<u>98,827,316</u>	<u>132,052,448</u>

a) Three purchases took place during the year for combined costs of \$6,853,137 (2011 - \$nil).

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6. Due from related parties

	2012 \$	2011 \$
Due from City (a)	4,179,323	-
Due from Toronto Port Lands Company (TPLC) (note 27)	357,309	-
Due from Invest Toronto Inc. (ITI) (note 27)	95,542	77,271
Due from Toronto Parking Authority (TPA) (note 27)	73,153	-
	<hr/>	<hr/>
Due from related parties	4,705,327	77,271

- a) The balance represents a certified cheque of \$3 million (2011 - \$nil) held by the City in lieu of a servicing letter of credit, a Brownfield Remediation Tax grant of \$993,750 (2011 - \$nil) under the Innovation and Technology Financial Incentives Program for 2011 and 2012 and a duplicate payment of \$185,573 (2011 - \$nil).

7. Amounts receivable – Current

	2012 \$	2011 \$
Financing and legal fees due from TWSI	-	107,501
Amounts held in trust (a)	1,377,037	-
Purchase price adjustment (b)	142,198	-
Other (c)	445,505	6,996
	<hr/>	<hr/>
	1,964,740	114,497

- a) The balance includes a security deposit of \$639,825 (2011 - \$nil) due for a sale which closed late in the year, and escrowed funds with a fair value of \$735,170 (2011 - \$nil) to be released once registration of site condition is achieved.
- b) Amount relates to additional profit participation from a sale of property that took place in 2011.
- c) The balance includes a HST refund of \$359,025 (2011 - \$nil) and accrued interest income of \$86,480 (2011 - \$6,996).

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8. Short-term investments and Cash and cash equivalents

	2012 \$	2011 \$
Short-term investments		
Guaranteed investment certificate (GIC) - original maturities greater than three months	30,360	30,000
Cash and cash equivalents		
GICs - various maturities within one year but redeemable after 30 days of issue	22,421,261	900,725
Cash	17,620,964	40,396,347
	<u>40,042,225</u>	<u>41,297,072</u>

9. Investment property

	2012 \$	2011 \$
Balance - Beginning of year	49,738,697	40,408,531
Acquisitions - transfers from the shareholder (note 27)	4,413,130	4,300,000
Acquisitions - from third-parties	824,963	-
Development costs	613,872	619,564
Net gain from fair value adjustments to investment property	5,161,057	4,410,602
Balance - End of year	<u>60,751,719</u>	<u>49,738,697</u>

Investment properties with an aggregate fair value of \$60,751,719 at December 31, 2012 (2011 - \$49,738,697). The fair value of the investment properties, which are primarily land, are reviewed regularly by management with reference to recent (2011) and current (2012) independent property appraisals and using current market sales statistics for similar properties.

In 2012, approximately 55% (2011 - approximately 70%) were valued using external appraisals by independent valuers who hold recognized and relevant professional qualifications and have recent experience in the location and type of property. These values are adjusted by management using judgements about costs to complete the work required to bring the properties to their highest and best use. Assumptions about the costs to bring the properties to their highest and best use affect the fair values. Changes in regional, national or international economic conditions, which affect market value can affect the fair values materially.

The fair value of one property with a long term ground lease was determined using discounted lease flows. The discount rate used was 6%. If the discount rate were to increase by 25 basis points (bps), the value of investment properties would decrease by \$1,291,000. If the discount rate were to decrease by 25 bps, the value of the investment properties would increase by \$1,481,000.

The Company has an investment property with fair value of \$15,500,000 (2011 - \$14,720,000) that is pledged as security for the loan payable to a government agency.

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10. Investment in Toronto Waterfront Studios Inc.

The Company, through BTHOI, holds 20% equity interests in two associates, TWSI and Toronto Waterfront Studios Development Inc. (TWSDI). The investments in the associates are accounted for using the equity method.

	TWSDI		TWSI	
	2012 \$	2011 \$	2012 \$	2011 \$
Balance - Beginning of year	22,379	-	2,002,023	2,361,985
Transfer	-	(8,390)	-	8,390
Advances	50,000	50,000	340,000	311,282
Share of net loss	(29,150)	(19,231)	(386,805)	(679,634)
Balance - End of year	43,229	22,379	1,955,218	2,002,023

For the years ending December 31, 2012 and December 31, 2011, TWSI and TWSDI reported the following financial positions and performances from operations:

	TWSDI		TWSI	
	2012 \$	2011 \$	2012 \$	2011 \$
Assets	5,408,854	5,370,841	48,991,017	49,917,500
Liabilities	5,192,707	5,258,942	36,906,567	39,155,049
Equity	216,147	111,899	12,084,450	10,762,451
Revenue	-	-	8,511,906	9,697,024
Expenses	145,752	96,153	10,445,928	13,828,342
Net loss for the year	(145,752)	(96,153)	(1,934,022)	(4,131,318)

The Company's share of losses from TWSI and TWSDI for fiscal 2012 at its 20% share is a loss of \$415,955 (2011 - \$698,865 loss).

The fair value of the land and land improvements at Pinewood Toronto Studios Inc. (PTSI), the management company for TWSI, was adjusted in 2011 and 2012 using an independent appraisal of the site.

The ground lease for the film studio land with PTSI is for a term of 99 years and was executed on August 25, 2005. On June 22, 2009, PTSI was granted a deferral of 50% of the basic rent for a term of five years ending in June 2014. Annual rent adjustments start June 22, 2027 and every subsequent 20-year anniversary thereafter. No dividends can be paid from PTSI unless and until any and all amounts due to the landlord have been paid. Rent until the next annual rent adjustment date is \$517,115 per annum.

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The equity investment amount includes \$1,140,000 (2011 - \$1,061,282) advanced to TWSI and TWSDI. The rate of interest and the repayment for this advance is subject to approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the year.

11. Joint arrangements

Investment in joint venture

The Company, through BTHHI, participates in a partnership with a third-party that owns real estate property, and accounts for its interest using the equity accounting method.

On December 13, 2012, BTHHI entered into a general partnership (Partnership) agreement with a residential developer by selling 100% of its ownership of the following property to a nominee company for the Partnership in return for a vendor-take-back (VTB) mortgage of \$14 million and a 35% ownership interest in the Partnership.

Name	Principal activity	Location	Ownership interest (%)	
			2012	2011
10 York	Inventory	Toronto, Ontario	35	n/a

For the year ending December 31, 2012, the Partnership reported the following financial position and performance from operations:

	2012 \$
Assets	45,226,181
Liabilities	18,138,569
Equity	27,087,612
Revenue	-
Expenses	3,902,293
Net loss for the period	(3,902,293)

The Company does not share in the Partnership's losses until the first advance date of construction financing.

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Investment in joint operation

The Company's interest in a co-owned property, which is accounted for on a proportionate consolidated basis, is as follows.

Name	Principal activity	Location	Ownership interest (%)	
			2012	2011
Ordnance/ Strachan	Inventory	Toronto, Ontario	50	n/a

12. Property, equipment and intangible assets

	Leasehold improvements \$	Furniture and fixtures, and Software license \$	Computer equipment \$	Website development \$	Total \$
Balance - December 31, 2010					
Cost	801,595	453,019	107,233	-	1,361,847
Accumulated depreciation and amortization	(64,645)	(75,503)	(29,787)	-	(169,935)
Opening net book value - January 1, 2011	736,950	377,516	77,446	-	1,191,912
Additions	26,344	22,771	16,257	21,448	86,820
Less: Depreciation and amortization	(79,378)	(91,802)	(38,029)	(2,349)	(211,558)
Ending net book value - December 31, 2011	683,916	308,485	55,674	19,099	1,067,174
Opening net book value - January 1, 2012	683,916	308,485	55,674	19,099	1,067,174
Additions	3,569	30,476	48,579	23,013	105,637
Less: Depreciation and amortization	(80,640)	(98,561)	(46,047)	(11,622)	(236,870)
Ending net book value - December 31, 2012	606,845	240,400	58,206	30,490	935,941
Balance - December 31, 2012					
Cost	831,508	506,266	172,069	44,461	1,554,304
Accumulated depreciation and amortization	(224,663)	(265,866)	(113,863)	(13,971)	(618,363)
	606,845	240,400	58,206	30,490	935,941

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13. Amounts receivable – Non-current

	2012 \$	2011 \$
Loan interest due from TWSI (a)	230,876	201,862
Deferred rent (b)	912,132	653,575
Deferred income (c)	186,779	-
	<u>1,329,787</u>	<u>855,437</u>

- a) Included in the 2012 balance is the present value of deferred loan interest of \$230,876 due in 2039 (2011 - \$201,862).
- b) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and PTSI (as tenant), PTSI was given a deferral of 50% of basic rent payable for a period of five years, starting June 22, 2009. This deferral is on an interest free basis.
- c) Interest free deferral of proceeds of \$200,000 related to a secured parcel of land reserved by the City until completion of the installation of services at which point it will be released to the purchaser and the proceeds will be paid. The fair value is \$186,779 (2011 - \$nil).

14. Loans receivable

	2012 \$	2011 \$
Long-term loan receivable - PTSI (a)	29,037,604	29,037,604
Deferred payment loan - TWSI (b)	3,776,146	3,777,063
Vendor-take-back mortgages (c)	36,939,081	2,084,981
Total	<u>69,752,831</u>	<u>34,899,648</u>
Less: Current portion	<u>23,294,466</u>	<u>-</u>
Non-current loans receivable	<u>46,458,365</u>	<u>34,899,648</u>

- a) Starting in December 2009, the Company through a subsidiary began a process to assist TWSI in restructuring its debt. After paying a discounted premium of \$2,299,752, a loan payable with a balance of \$26,921,801, interest rate of 5.61% and due date of September 2018 was assumed by the Company as lender.

The Company utilized two consecutive bridge facilities with a major bank and a government agency during negotiations which were finalized on March 18, 2011. The new facility is for a maximum of \$34.5 million, which can be accessed with draw requests until December 23, 2014. The new interest-only facility will be converted into a 25-year amortizable debenture on maturity. The interest rate of 1.99% as at year-end is reset monthly at the government agency's average monthly cost of funds and the loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.

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The Company agreed to loan the interest income from the interest rate differential, interest free over the term of the final loan. As such, \$29,014 in interest income that would otherwise have been earned in 2012 (2011 - \$87,453) will be recognized over the remaining term of the loan receivable. The Company has recorded a receivable of \$230,876 (2011 - \$201,862) as at year-end, which represents the present value of the interest income receivable.

On the settlement date March 18, 2011 for the new loan, a gain of \$3,069,752 was recognized relating to the prepayment penalty not originally passed on to PTSI and recovered with financing costs and legal fees in the first advance.

As a condition of the loan with the government agency, the Company has agreed to maintain additional asset value coverage of \$30.5 million in excess of the \$4 million in guarantees provided by the other shareholders of TWSI. The Company charges a guarantee fee to TWSI of 1% of 80% of the shortfall (\$24.4 million). This fee is due annually on March 18 in advance and the rate of 1% reduces by 50% each year on the anniversary date for a five-year term.

- b) As part of a trailing obligation upon restructuring and investing in TWSI in 2009, on June 15, 2011, the Company provided a loan in the amount of \$3,660,917 to TWSI and set up a loan payable with identical terms as with TPLC described in note 18. The loan bears interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest paid on June 23, 2012, and maturity on June 23, 2014. The loan is secured by a pledge of 1,000 common shares of PTSI.
- c) VTB mortgages were issued in connection with land sale transactions in 2012 with combined proceeds of \$57,106,000. The interest rates range from 0% to 6.5% with various maturities from July 30, 2013 to December 23, 2014. The 0% loan has been adjusted to its fair value. The balance includes accrued interest of \$272,404. The balance in 2011 was repaid on November 28, 2012. All VTB mortgages are secured on the land.

15. Amounts payable and other liabilities

	2012 \$	2011 \$
Trade payables - general	1,678,332	856,341
Accruals	2,719,661	2,037,431
Total payables and accrued liabilities	4,397,993	2,893,772
Deferred lease inducement	410,089	464,761
Deferred lease escalations	107,082	102,522
Guarantee fee received in advance	25,737	51,831
Construction holdbacks	22,158	-
Rent received in advance	584,126	-
HST payable	-	94,978
Total amounts payable and other liabilities	5,547,185	3,607,864

Build Toronto Inc.

Notes to Consolidated Financial Statements

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16. Dividend payable

The Board of Directors of the Company did not declare any dividend to the shareholder for 2012 (2011 - \$20,000,000).

17. Environmental provision

The environmental provision is calculated using management's best estimation based on third-party engineering reports of the likely costs to remediate or mitigate current known site conditions. Costs are assessed on a site by site basis and range from full removal of historic fills to risk assessment and management measures to reduce remedial requirements.

The Company will commence the remediation process just prior to or during development.

The risks inherent in calculating the future environmental provision are: the timing of expenditures to remediate, potential changes in environmental legislation and the identification of all known issues and end use of the property.

	2012 \$	2011 \$
Balance - Beginning of year	20,010,066	2,425,000
Additions	8,000,000	17,585,066
Reversals (a)	(1,100,000)	-
Amounts paid/utilized	(64,949)	-
Total - End of year	26,845,117	20,010,066
Less: Current portion	(85,000)	(64,949)
Non-current environmental provision	26,760,117	19,945,117

a) For properties sold and liability assumed by the new owner, the related provision has been reduced.

18. Debt

	2012 \$	2011 \$
Long-term loan payable - government agency (a)	29,037,604	29,037,604
Deferred loan payable to TPLC (b)	3,776,146	3,777,063
Debt	32,813,750	32,814,667

a) On December 31, 2009, to assist with the debt restructuring at TWSI, the Company entered into an interest only bridge loan of \$30 million with a Canadian financial institution. The loan had interest at prime and was secured by assets of BTHOI and the Company. Proceeds of the loan were used to acquire a loan owing from TWSI to a financial intermediary.

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On May 28, 2010, while negotiations were ongoing, the matured bridge loan was refinanced with an interim bridge loan for \$29 million, from the same government agency, which bore interest only at prime, secured by assets of BTHOI and the Company.

On March 18, 2011, with negotiations with TWSI finalized, the interim bridge loan was replaced with a new long-term facility with the same government agency. The new facility is for a maximum of \$34.5 million of which \$29 million was borrowed to repay the bridge loan. An additional \$5,462,937 is available until December 23, 2014, to be drawn to fund construction improvements at TWSI. The new facility is interest only for the first three years, currently at 1.99%, to be reset monthly to the government agency's borrowing rate; thereafter, the interest rate will be fixed and the ending principal amount will be amortized over 25 years. The Company has the ability to fix the interest rate on the new facility within the first three years of the term. The Company accounted for the restructuring of the loan payable as an extinguishment of debt and thus derecognized the previous loan, resulting in a loss of \$1,980,401, related to the write-off of the prepayment penalty paid when acquiring the original loan in 2009. The loan is secured by the assets of BTHOI, corporate guarantees of BTHOI and the Company.

- b) As part of a trailing obligation upon restructuring and investing in TWSI in 2009, related to post-closing adjustments of the share purchase price, on June 15, 2011, the Company provided a loan on TPLC's behalf in the amount of \$3,660,917 to TWSI described in note 14 and set up a loan payable with identical terms with TPLC. The loan bears interest at 6% per annum, with interest calculated in arrears annually with the first payment of interest paid on June 23, 2012, and maturity on June 23, 2014. The loan is secured by a pledge of common shares of PTSL.

19. Shareholder's equity

As at December 31, 2012, one (2011 - one) common share is authorized, issued and outstanding.

20. Rental revenue

Investment property rental revenue is comprised as follows:

	2012 \$	2011 \$
Leases	517,114	517,114
Licenses	171,409	107,072
Residential rental	1,000	-
Parking	376,993	95,505
Recoverable operating costs and property taxes	1,052,365	925,863
Total investment property rental revenue	2,118,881	1,645,554

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21. General and administrative expenses

General and administrative costs, net of allocations to TPLC and ITI (note 27), consist of the following:

	2012		
	Gross \$	Allocation \$	Net \$
Salaries and benefits	6,137,228	(136,951)	6,000,277
Office services	416,488	(27,640)	388,848
Office occupancy	666,898	(90,098)	576,800
Professional fees	397,141	(1,447)	395,694
Marketing and promotion	161,534	-	161,534
	<u>7,779,289</u>	<u>(256,136)</u>	<u>7,523,153</u>

	2011		
	Gross \$	Allocation \$	Net \$
Salaries and benefits	6,316,006	(465,025)	5,850,981
Office services	468,199	(55,088)	413,111
Office occupancy	665,241	(219,632)	445,609
Professional fees	614,137	(10,841)	603,296
Marketing and promotion	91,939	-	91,939
	<u>8,155,522</u>	<u>(750,586)</u>	<u>7,404,936</u>

22. Net gain on derecognition of loans receivable and payable

	2012 \$	2011 \$
Gain on derecognition of loan receivable (note 14)	-	3,069,752
Loss on extinguishment of debt (note 18)	-	(1,980,401)
Net gain on derecognition of loans receivable and payable	<u>-</u>	<u>1,089,351</u>

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Notes to Consolidated Financial Statements

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23. Interest income

	2012 \$	2011 \$
Investment	100,376	145,738
Mortgage receivable interest	496,804	237,358
Loan interest - PTSI	792,688	562,927
Other	223,565	51,719
Total interest income	<u>1,613,433</u>	<u>997,742</u>

24. Employee benefits

Post-employment benefits

The Company makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer pension plan, on behalf of some of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entities participating in the plan and therefore the Company does not recognize any share of the OMERS pension surplus or deficit. The Company's current service contributions to the OMERS pension plan in 2012, which are expensed, total \$466,616 (2011 - \$381,991) and are included in salaries and employee benefits expense on the consolidated statements of comprehensive income.

Key management compensation

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

	2012 \$	2011 \$
Salaries and other short-term employee benefits and termination benefits	1,969,579	1,806,582
Directors' fees	67,155	103,111
	<u>2,036,734</u>	<u>1,909,693</u>

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25. Amortization of discounts on receivables

	2012 \$	2011 \$
Amortization of discounts on amounts receivable - current (a)	14,830	-
Amortization of discounts on mortgage receivables (b)	(38,617)	159,439
Amortization of discounts on amounts receivable - non-current (c)	(15,793)	(22,852)
	<u>(39,580)</u>	<u>136,587</u>

- a) Amount relates to an escrowed fund with respective original and discounted value of \$750,000 and \$735,170 (note 7) (2011 - original \$nil; 2011 - discounted value \$nil).
- b) Amount is comprised of the reversal of the amortization of discount on the repayment of a loan by borrower with respective original and discounted value of \$2,244,420 and \$2,084,981 (2011 - original \$2,244,420; 2011 - discounted value \$2,084,981), and the amortization of discount on issuing of a 0% interest VTB mortgage with respective original value and discounted value of \$14 million and \$13,879,178 (2011 - original value \$nil; 2011 - discounted value \$nil).
- c) Amount is comprised of the amortization of discount on the deferred loan with respective original and discounted value of \$812,382 and \$230,876 (2011 - original value \$812,382; discounted value - \$201,862), and an interest free deferral of proceeds with respective original and discounted value of \$200,000 and \$186,779 (note 13) (2011 - original value \$nil; 2011 - discounted value \$nil).

26. Supplemental cash flow information

	2012 \$	2011 \$
Issuance of VTB mortgages receivable	(37,098,520)	(2,244,420)
Repayment of VTB mortgages receivable	2,244,420	-
Increase in due from related parties (a)	(3,728,082)	(15,359)
(Increase) decrease in amounts receivable	(2,026,456)	2,886,827
(Increase) decrease in prepaid expenses	(127,208)	22,038
Decrease in due to related parties	(811,366)	(656,281)
Increase (decrease) in amounts payable and other liabilities	1,889,205	(669,724)
Proceeds from VTB mortgages payable	5,208,097	-
Repayment of VTB mortgages payable	(5,208,097)	-
Decrease in environmental provision	(1,164,949)	-
	<u>(40,822,956)</u>	<u>(676,919)</u>

- a) Amounts due from related parties was increased by \$899,974 during 2012 with a corresponding increase in contributed surplus (see note 27 for details).

Build Toronto Inc.

Notes to Consolidated Financial Statements

December 31, 2012

Supplementary information

	2012 \$	2011 \$
Interest paid during the year	574,289	654,758
Interest received during the year	1,021,353	466,452
Accrued investment property development costs	157,646	236,914

27. Related parties

In addition to related party transactions and balances discussed elsewhere in the notes, the relationship and transactions with the Company's shareholder, the City, and other related parties are detailed below:

Related parties	Relationship
City of Toronto Economic Development Corporation (operating as Toronto Port Lands Company (TPLC))	same parent
Toronto Transit Commission (TTC)	same parent
Invest Toronto Inc. (ITI)	same parent
Toronto Parking Authority (TPA)	same parent, tenant
Toronto Waterfront Studios Inc. (TWSI)	investee, tenant, debtor
Toronto Waterfront Studios Development Inc. (TWSDI)	debtor, investee

Transfers from the City and related entities

During the year, transfer from the shareholder included real estate inventory and investment property, which has a fair value of \$11 million (notes 5 and 9) (2011 - \$92,467,402) with corresponding amounts recorded in environmental provision of \$8 million (note 17) (2011 - \$17,585,066) and contributed surplus of \$3 million (2011 - \$74,882,337).

Toronto Port Lands Company

The Company has an arrangement whereby certain office services and staffing costs are shared with TPLC in 2012. The allocation of these costs are highlighted in note 21 and are calculated on a time spent basis.

Included in due from related parties is an amount of \$357,309 receivable from TPLC (2011 - \$811,169 payable). In 2008, two parcels of land were designated by the City to be transferred from TPLC. During 2010, the properties were sold by TPLC for net proceeds of \$10,774,426, and in June of 2011, the net effect of the sale was used to reduce the amount payable to TPLC by the Company with a corresponding increase to contributed surplus. In 2012, the TPLC's board authorized a reserve in the amount of \$899,974 for additional amounts due to the Company based upon additional proceeds received to date and adjustments to the estimated cost to complete as at December 31, 2012 in respect of TPLC's obligations in connection with the sale. This amount has been reflected as contributed surplus and is included in the due from related parties. The final amount ultimately to be transferred to the Company may change if further additional proceeds are received or as a result of further adjustments to the estimated cost to complete. There is no set term of repayment of this amount and no interest is being charged to TPLC.

Build Toronto Inc.

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Invest Toronto Inc.

Included in due from related parties is an amount of \$95,542 (2011 - \$77,271) due from ITI for shared service allocations which ended in May 2012. There is no set term of repayment of this amount and no interest is being charged to ITI. The Company expects that this balance and the amount due from TPLC will be settled at the same time.

Toronto Parking Authority

Included in due from related parties is an amount of \$73,153 (2011 - \$nil) due from TPA which represents the Company's share of net results of operations at a parking facility. There is no set term of repayment of this amount and no interest is being charged to TPA, and the outstanding balances are settled on a regular basis. The amount of \$12,316 for the month of November 2012 was repaid in January 2013.

Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.

The Company, through BTHOI, holds 20% equity interests in TWSI and TWSDI (note 10). The original investment was held by TPLC and transferred to the Company to facilitate debt restructuring on behalf of TWSI as part of the Company's city-building mandate.

Land, land improvements, shares and a shareholder loan receivable were transferred from TPLC in 2009. At December 31, 2009, the Company purchased TWSI's debt, and through a series of transactions, refinanced the loan on March 18, 2011 with a government agency at a favourable rate and provided the Company's corporate guarantee, for which a guarantee fee is charged (notes 14 and 18). The Company's debt as described in note 18 is as a result of the restructuring and assistance provided by the Company to TWSI. Pursuant to the terms of the promissory note, the Company is required to guarantee the obligations of TWSI, and in return, the latter will pay the Company a loan guarantee fee income. For the year ended December 31, 2012, the Company recognized guarantee fee income of \$147,737 (2011 - \$192,526) and received loan interest income of \$792,688 (2011 - \$562,927) from TWSI.

Included in rental revenue at December 31, 2012 is \$1,568,762 (2011 - \$1,434,349) received from TWSI.

Build Toronto Inc.

Notes to Consolidated Financial Statements

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28. Commitments and contingencies

Operating Leases

Future minimum annual lease payments on the 200 King Street West office are as follows:

	\$
2013	282,500
2014	282,500
2015	296,625
2016	310,750
2017	310,750
Thereafter	776,875
	<u>2,260,000</u>

During the year ended December 31, 2012, the Company paid \$282,500 (2011 - \$282,500) in minimum lease payments with respect to the lease of the office premise, and operating lease payments of \$11,115 (2011 - \$7,736) for office equipment, which have been included in comprehensive income for the year.

Investment in TWSI and TWSDI

From time to time, BTHOI receives cash funding calls from TWSI and TWSDI for the construction of film studios and office premises, which it is obligated to fund, at an amount equivalent to 20% of its equity ownership of the cash requirements. During the year ended December 31, 2012, BTHOI funded \$340,000 (2011 - \$311,282) and \$50,000 (2011 - \$50,000) to TWSI and TWSDI, respectively. The Company's future commitments are determined through ongoing negotiations with the investees and investors. TWSDI is currently expanding the facility. The Company's estimated share of the funding costs to come will approximate \$1,140,000. The project is expected to be completed in May 2013.

BTHOI is contingently liable to fund its 20% share of a provision to purchase 19.85% of the shares of one of the other investors (the "ROI Put Option"). The ROI Put Option is only exercisable if the enterprise value of TWSI as determined by an independent valuator is less than \$47.5 million as calculated on June 24, 2016. The total provision is \$3,406,075 and BTHOI's share is \$681,215.

Investment in joint operation

On April 25, 2012, the Company entered into a joint arrangement agreement with a third-party developer to develop a site that has existing tenants. Pursuant to the agreement, the Company is required to fund the relocation of one of the tenants up to a maximum of \$3.75 million. During the year ended December 31, 2012, the Company paid \$113,354 (2011 - \$nil). The Company is not in a position to accurately estimate the relocation funding for the future years.

Pursuant to the same agreement, the Company is required to deliver park lands of a certain condition to the City at the project's final stage but it is not possible to accurately estimate the timing and quantify the economic impact of the transaction at this time.

Build Toronto Inc.

Notes to Consolidated Financial Statements

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Trailing obligations

Pursuant to a sale of land in December 2012, the Company is liable to complete the installation of sanitary sewers and water mains servicing the property sold. The City has secured a deposit of \$3 million in lieu of a letter of credit. The first phase of the servicing is expected to cost \$1.4 million, and be completed by the end of 2013.

Litigation

In the normal course of its operations, the Company from time to time, may be named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, management intends to vigorously defend them and does not expect they will have a material effect on the Company's business, financial condition or operations.

The Company and/or its subsidiary, BTHOI, may be added as a party to a legal action initiated by a third-party in connection with BTHOI's investment in TWSI, the owner of Pinewood Studios in Toronto. The lawsuit alleges that certain transactions which brought about the restructuring of the ownership of Pinewood Studios in 2009 were in violation of applicable law, and the suit seeks various remedies in consequence thereof. BTHOI has appointed counsel and is vigorously opposing the application to name BTHOI as a party defendant in this action. The matter has not yet been decided, and; therefore, the Company has not made any provision in compliance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

29. Capital management

The Company's capital is comprised of debt and shareholder's equity. The Company manages its capital, taking into account the long-term business objectives of the Company and the Company's mandate of delivering a financial dividend to the shareholder and to achieving its city-building objectives. Value-added monetized asset sales, financing fees, and land rent from properties transferred from the shareholder and related parties have provided cash for operations and to fund investigative, development, capital improvements and operations. The Company's capital management strategy is to utilize these sources of funds, obtain third party financing where possible, retain funds for operations and release any surplus funds to the shareholder. The current long-term loans payable and loans receivable closely mirror the same terms.

30. Financial instruments - risk management

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

Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligation to the Company. The carrying value of the financial assets as presented in the consolidated balance sheets represents the maximum credit risk exposure at the dates of the consolidated financial statements.

Build Toronto Inc.

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The Company, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that management believes the Company has thorough and rigorous credit approval procedures. The Company provides for an allowance for doubtful accounts to absorb potential credit losses when required. No allowance for doubtful accounts was recorded on December 31, 2012 (2011 - \$ nil).

The long-term loans receivable from TWSI is collateralized with a leasehold mortgage and \$4 million in guarantees from the shareholders of TWSI. As such, in the event of default, the Company can take title and liquidate the assets of TWSI and enforce the guarantees. The cash and cash equivalents and short-term investments are held by a Schedule 1 Canadian financial institution. The VTB mortgages are due no later than December 23, 2014 and are secured by the land. The developers cannot resell the severed lots prior to discharging the VTB. Management believes the Company's credit risk is low.

Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. Management believes the liquidity risk of the Company is low. As at December 31, 2012, all obligations except the loans payable of the Company discussed in note 18 are due within one year.

Interest rate risk

Interest rate risk is borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Company is exposed to interest rate risk through its loan payable, the interest rate of which is based on the government agency's average borrowing rate until the rate is fixed, and its cash balances. As at December 31, 2012, a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately \$290,376. Any increase would be passed along to TWSI as loan interest receivable. The deferred loan payable has a matching loan receivable and the interest rate is fixed by contract at 6%.

The VTB mortgages are not subject to interest rate risk as they all have fixed interest rates, ranging from 0% to 6.5%, and have maturities from July 30, 2013 to December 23, 2014.

Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. As at December 31, 2012, the Company held no financial instruments that were denominated in currencies other than Canadian dollars.

31. Financial instruments - fair value

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, loans receivable, due from related parties, advances to TWSI included in equity accounted investments, trade payables, due to related parties and debt. With the exception of cash, all other financial instruments are recorded at cost or amortized cost, which approximates fair value.

IFRS 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 statements dates. The three levels are defined as follows:

Build Toronto Inc.

Notes to Consolidated Financial Statements

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- Level 1 - Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.
- Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds, hedge funds, federal, provincial and other government bonds, Canadian corporate bonds and certain derivative contracts.
- Level 3 - Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

As at December 31, 2012, cash and cash equivalents of \$40,042,225 (2011 - \$41,297,072) are classified in the Level 1 category.

32. Prior year's figures

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







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