



2012 Compensation Discussion and Analysis (CD&A)

June 3, 2013

Build Toronto Inc. 2012 Compensation Discussion and Analysis (CD&A)

Build Toronto 2012 COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

This document provides a discussion and analysis of the Board-approved executive compensation for 2012 for the Named Executive Officers (NEOs) of Build Toronto. This outlines the Governance Practices of Build Toronto's Human Resource and Corporate Governance (HRCG) Committee and Board of Directors.

Build Toronto is a Corporation whose sole shareholder is the City of Toronto. Build Toronto is overseen by a 13-member Board of Directors whose members are appointed by the Toronto City Council. Executive compensation is overseen by the HRCG Committee of the Board of Directors. The composition and functional responsibilities of the HRCG Committee are consistent with our Shareholder Direction

The CD&A outlines the strategy and direction on executive compensation approved by the HRCG Committee and the Build Toronto Board of Directors.

Executive Summary

This CD&A outlines the compensation strategy for Build Toronto. The salient points in this document are:

- There is a strong process in place to manage executive compensation at Build Toronto that is the responsibility of the Human Resources and Corporate Governance Committee.
- The HRCG Committee has retained an independent advisor, Mercer Canada, to assist the Committee in gathering data and providing analysis. The Committee has approved a hybrid comparator group of 20 organizations from both the private and public sector to benchmark our compensation.
- Build Toronto competes for executive talent in a highly competitive marketplace where total compensation for comparable executives is much higher than at Build Toronto and many comparator group companies include significant long-term incentives.
- Build Toronto had extraordinary results in 2012. While Real Estate is a highly cyclical business, Build Toronto achieved a record number of transactions and value creation for the City of Toronto which resulted in above target compensation for the NEOs.
- The Build Toronto Board of Directors is currently reviewing the compensation program including options to bring it into compliance with City Council's desire to limit incentive payments to 25% of base salary. Compensation for the incoming CEO will be in compliance with City Council's direction.

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1.0 Build Toronto Board of Directors

The Build Toronto Board of Directors is charged with overseeing the Governance of the Build Toronto organization in compliance with the Shareholder Direction from the City of Toronto. Its primary function in this area is overseen by the Human Resources and Corporate Governance Committee.

1.1 Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee (HRCG) has a corporate governance role, and is responsible for assisting the Board in overseeing:

- Human resource policies
- Executive compensation
- Succession planning

The Committee had four members in 2012:

- Councillor Doug Ford (Chair)
- Blake Hutcheson
- Paul Finkbeiner
- Ucal Powell

The HRCG Committee is responsible for:

- Consulting with management to develop our general philosophy on compensation and performance-based or “at risk” pay;
- Reviewing and recommending to the Board for approval all compensation policies and programs for our NEOs;
- Setting corporate goals and objectives relating to the compensation for the CEO and the other NEOs;
- Evaluating the CEO’s performance against those goals and objectives;
- Setting CEO compensation based on the Committee’s evaluation;
- Determining the compensation of the other NEOs based on the CEO’s evaluations; and,
- Overseeing the development and implementation of compensation programs, including incentive compensation plans.

This Committee met six times in 2012. It met *in camera* without management present at every meeting.

1.2 Independent Compensation Advisor

Following a competitive procurement process in 2012, the HRCG Committee retained Mercer (Canada) Limited (Mercer) to provide advice in reviewing NEO compensation and competitive pay system design. Mercer is engaged by, and reports solely to, the HRCG Committee. Mercer’s services in 2012 included:

1. Reviewing the comparator group used to benchmark executive pay;
2. Benchmarking the NEO compensation program relative to the market;
3. Reviewing and recommending adjustments to the NEO perquisite program.

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Mercer is also engaged in assisting the HRCG in working towards compliance with the City Council direction on Compensation.

1.3 City Council Resolution on Incentive Pay

Toronto City Council at its meeting of July 11, 2012, passed a resolution requesting the City Manager to provide direction to City Agencies, Boards and Commissions to limit incentive or bonus payments to a maximum of 25% of the base salary. The HRCG and the Build Toronto Board carefully considered this issue in the context of existing employment contract obligations with its NEO's, and sought the input of legal counsel to determine the Board's exposure if it were to unilaterally impose a reduction in variable compensation. The Board and the HRCG has initiated a review of the performance metrics, structure and payout ratios of the STIP Program which is currently being completed by Mercer and will be considered by the HRCG with the overall objective of achieving compliance with the City Council resolution.

2.0 Compensation Program

Our executive compensation program includes a base salary, short-term incentive, pension and other benefits. The short-term incentive plan is *at-risk* compensation, which is awarded according to how well we perform as a company (corporate performance), and how well the executive performs in his or her role (individual performance). The most senior people in our organization have the highest amount and proportion of total compensation that is at risk, as they have the greatest ability to affect the company outcomes.

2.1 The Relationship between Compensation and Build Toronto's Corporate Performance

The executive compensation program is directly linked to Build Toronto's performance targets. These targets are approved by the Board of Directors through the consideration and adoption of an Annual Business Plan and a Five-Year Strategic Plan. In addition to the financial targets laid out in the Business Plan, Build Toronto NEOs are evaluated on the performance of their business unit, and on City Building and Personal objectives.

2.3 Our Named Executive Officers (NEOs)

In 2012, our NEOs were:

- J. Lorne Braithwaite, Chief Executive Officer (CEO)
- David Fiume Senior Vice-President and Chief Financial Officer (CFO).
- Don Logie, Senior Vice-President, Development
- John Macintyre, Senior Vice-President, Corporate Development and Residential Projects
- Prakash David, Senior Vice-President, Retail and Residential Development

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3.0 Compensation Hybrid Comparator Group

In 2010, Build Toronto first established a hybrid comparator group of both public sector and publicly traded private sector peer organizations with which Build Toronto competes for executive talent. Mercer reviewed the existing peer organizations and recommended replacements for two that are no longer operating. The following comparator group was approved by the HRCG Committee and the Board in 2012. The comparator group is used to determine market competitive pay levels and practices.

Private Sector Peer Organizations	Public Sector Peer Organizations
1. Crombie REIT	1. Independent Electricity System Operator
2. Genesis Land Development Corp.	2. Infrastructure Ontario
3. Huntingdon Capital Corp.	3. Metrolinx
4. Innvest REIT	4. Ontario Energy Board
5. Interrent Real Estate Inv. Tr.	5. Ontario Financing Authority
7. Melcor Development Ltd	7. Ontario Securities Commission
8. Morguard REIT	8. Toronto Community Housing Corp.
9. Northern Property REIT	9. Toronto Waterfront Revitalization Corp.
10. Transglobe Apartment REIT	10. Workplace Safety & Insurance Board

4.0 Board Approved Executive Compensation Program for 2012

Total compensation for our executives includes four elements:

1. Base salary
2. Short-term incentive plan (STIP)
3. Pension
4. Benefits and perquisites

4.1 Incentive Pay for Build Toronto Executives--STIP (Short-term Incentive Plan)

Performance objectives set at the beginning of the year are evaluated at year-end in each of the following areas:

- Corporate Performance (Adjusted Net Operating Income)
- Business Unit Performance
- Personal Performance
- City-based Performance

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Performance in 2012 significantly exceeded our projected results and yielded a corporate performance payout multiplier of 120.3% of target for the NEOs. This reflects the Company's significant value creation and revenue generation in 2012. Performance against City objectives was also factored in when determining STIP awards. The 2012 payments under the STIP are outlined in the Summary Compensation Table.

4.2 Benefits and Perquisites

In 2012, NEOs were provided a standard company package of Health, Dental and Insurance Benefits which is the same program for all Build Toronto employees.

In addition, the NEOs each received a menu package of perquisites, that were capped at a total annual value of \$ 12,500.00. The HRCG Committee has reviewed and the Board of Directors has approved changes to the perquisite entitlement effective January 2013. These changes include the elimination of certain perquisites, including car allowances and club memberships.

4.3 Pension

Build Toronto is a member of the OMERS Multi-employer pension plan. Contributions to OMERS are shared equally between the employer and the employee.

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Build Toronto 2012 Named Executive Officers (NEO's) Summary Compensation Table

Position Title	Name	Year	Base Salary	STIP Program Payments	Total Cash Compensation	Perquisites (Note 1)	Total Compensation
CEO	J. Lorne Braithwaite	2012	\$ 327,600	\$ 258,013	\$ 585,613	\$ 11,597	\$ 597,210
SVP & CFO	David Fiume (Note 2)	2012	\$ 205,000	\$ 119,035	\$ 324,035	\$ 7,845	\$ 331,880
SVP - Development	Don Logie	2012	\$ 225,000	\$ 116,512	\$ 341,512	\$ 12,312	\$ 353,824
SVP - Corporate Development & Residential Projects	John Macintyre	2012	\$ 207,000	\$ 120,197	\$ 327,197	\$ 11,750	\$ 338,947
SVP Retail and Residential Development	Prakash David (Note 3)	2012	\$ 215,000	\$ 124,842	\$ 339,842	\$ 7,876	\$ 347,718

Note 1: Perquisites are reported at the annual cost for the year and are capped at \$12,500

Note 2: Mr. Fiume joined the company in November 2011 and this is his first year reporting under the CD&A

Note 3: Mr. David was promoted to Senior Vice President in December 2011 and this is his first year reporting under the CD&A