

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

Consolidated Financial Statements
December 31, 2017



April 23, 2018

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company, which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of shareholder's equity, net income and comprehensive income and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: 416-863-1133, F: 416-365-8215*

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

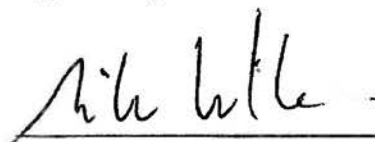
Chartered Professional Accountants, Licensed Public Accountants

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

As at	Notes	December 31, 2017	December 31, 2016
		\$	\$
ASSETS			
Non-current assets			
Investment properties	5	336,362,379	340,195,847
Restricted cash and investments	2	16,223,295	15,974,013
Other non-current assets	6	4,121,593	2,890,444
Total non-current assets		356,707,267	359,060,304
Current assets			
Amounts receivable	7, 12	10,547,609	4,611,413
Prepaid expenses		8,675	130,625
Short-term investments	8	26,050,000	7,000,000
Cash and cash equivalents	9	4,679,123	20,615,354
Total current assets		41,285,407	32,357,392
Total assets		397,992,674	391,417,696
LIABILITIES AND SHAREHOLDER'S EQUITY			
Non-current liabilities			
Tenants' deposits and prepaid rents	11	7,792,922	7,967,720
Total non-current liabilities		7,792,922	7,967,720
Current liabilities			
Accounts payable and accrued liabilities	10, 12	6,621,029	5,750,976
Prepaid rents	11	323,271	365,101
Total current liabilities		6,944,300	6,116,077
Total liabilities		14,737,222	14,083,797
Shareholder's equity		383,255,452	377,333,899
Total liabilities and shareholder's equity		397,992,674	391,417,696
Commitments and contingencies	19, 20		

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

Approved by the Board of Directors

 Director

 Director

City of Toronto Economic Development Corporation
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Consolidated Statement of Shareholder's Equity

	Notes	Number of Shares	Capital \$ (note 1)	Retained Earnings \$	Total Shareholder's Equity \$
Balance, as at December 31, 2015		1	1	369,951,765	369,951,766
Net income				14,272,426	14,272,426
Dividend related to the incubator program	12(a)(iii)			(1,890,293)	(1,890,293)
Dividend				(5,000,000)	(5,000,000)
Balance, as at December 31, 2016		1	1	377,333,898	377,333,899
Net income				11,030,476	11,030,476
Dividend related to the incubator program	12(a)(iii)			(1,928,099)	(1,928,099)
Dividend				(3,180,824)	(3,180,824)
Balance, as at December 31, 2017		1	1	383,255,451	383,255,452

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

City of Toronto Economic Development Corporation
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Consolidated Statement of Net Income and Comprehensive Income

For the year ended December 31	Notes	2017	2016
		\$	\$
Net property income			
Revenue from investment properties	14	17,605,202	17,066,475
Investment property operating expenses	16, 12(a)(ii)	5,556,927	5,630,669
		<u>12,048,275</u>	<u>11,435,806</u>
Expenses			
General and administrative	17, 12(c)(iv)	3,696,591	4,492,532
Environmental monitoring		212,110	137,361
Amortization	18	1,432,330	1,433,998
		<u>5,341,031</u>	<u>6,063,891</u>
Income before the following		<u>6,707,244</u>	<u>5,371,915</u>
Other income (expenses)			
Interest and investment income		635,853	566,146
Invest Toronto grant	12(c)(i), 12(c)(ii)	-	(2,025,000)
		<u>635,853</u>	<u>(1,458,854)</u>
Income before gain on sale of investment properties and net proceeds from insurance settlement and restructuring costs		<u>7,343,097</u>	<u>3,913,061</u>
Restructuring costs	10(a)	(1,200,000)	-
Net proceeds from insurance settlement	15	4,885,442	-
Gain on sale of investment properties	5	1,937	10,359,365
Net income and comprehensive income		<u>11,030,476</u>	<u>14,272,426</u>

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

City of Toronto Economic Development Corporation
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Consolidated Statement of Cash Flows

For the year ended December 31,	Notes	2017	2016
		\$	\$
OPERATING ACTIVITIES			
Net income		11,030,476	14,272,426
Items not affecting cash	13(a)	(3,604,017)	(9,098,923)
Net change in operating assets and liabilities	13(b)	1,942,527	508,453
Cash provided by operating activities		9,368,986	5,681,956
FINANCING ACTIVITIES			
Distributions to shareholder and incubator program	12(a)(iii)	(5,108,923)	(6,890,293)
Cash (used in) financing activities		(5,108,923)	(6,890,293)
INVESTING ACTIVITIES			
Sale (Purchase) of short-term investments		(19,050,000)	4,000,000
Increase in restricted cash		(249,282)	(235,037)
Increase in other non-current assets		(1,458,049)	(1,115,223)
Decrease in cash for demolition and restoration costs relating to fire		(440,720)	-
Net proceeds from sale of investment properties		1,131,287	11,499,985
Additions to investment properties		(129,530)	(1,148,928)
Cash provided by (used in) investing activities		(20,196,294)	13,000,797
Increase (Decrease) in cash and cash equivalents during the year		(15,936,231)	11,792,460
Cash and cash equivalents, beginning of year		20,615,354	8,822,894
Cash and cash equivalents, end of year	9	4,679,123	20,615,354

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

Note 1

Nature and description of the Corporation

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

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

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

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

The Corporation's consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on April 18, 2018, after which the consolidated financial statements may only be amended with the Board's approval.

Note 2

Summary of significant accounting policies

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

New accounting standards adopted in 2017

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

IAS 7 "Disclosures" ("IAS 7")

IAS 7 requires entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments to IAS 7 are effective for years beginning on or after January 1, 2017. The Corporation's adoption of this amendment did not result in a material impact to the financial statements.

Basis of presentation and consolidation, and statement of compliance

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

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

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

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

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

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

Subsidiaries are fully consolidated from the date of inception, which is the date on which the Corporation obtains control and continue to be consolidated until the date such control ceases. Control exists when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

Basis of measurement

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

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

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

Real estate properties

Investment properties

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

The Corporation categorizes its investment properties as income-producing properties. Investment properties are accounted for using the cost model wherein the cost of an income-producing property is allocated to its significant components and is amortized over the useful life of each component as described below.

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

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

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

Additions to investment properties

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

- Major maintenance costs: Maintenance and repair costs are expensed against operations, while major maintenance costs, which are major items of repair or replacement incurred pursuant to a capital plan that improve productive capacity, are capitalized to income-producing properties. Each item is amortized over the useful life of the significant component to which it relates.
- Tenant improvements: Amounts expended to meet the Corporation's lease obligations are characterized as either tenant improvements, which are owned by the landlord, or tenant incentives. An expenditure is determined to be a tenant improvement when it primarily benefits and/or is owned by the landlord. In such circumstance, the Corporation is considered to have acquired an asset which is accounted for as a component of income-producing properties. Each tenant improvement is amortized over its useful life, which is generally between five and ten years.
- Leasing commissions: Direct third party brokerage fees incurred in the successful negotiation of a lease are amortized on a straight-line basis over the expected terms of the respective leases. The unamortized balance is expensed in full in the event the associated property is sold or the lease is terminated prior to its contractual expiration date. Leasing commissions are included in the carrying value of the investment property.

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

Impairment

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

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

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Fair value is determined based on:

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

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

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

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

For the year ended December 31, 2017, there was no impairment losses recognized on the Corporation's investment properties except as listed in note 5.

Other non-current assets

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

Amortization is provided on a basis designed to amortize the costs of the assets over their expected useful lives as follows:

	<u>Useful life (years)</u>
Furniture, fixtures and office equipment	5
Computer equipment	3
Rail lines and infrastructure	10 - 25
Fencing	5
Property maintenance equipment	5

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

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

Rail lines and infrastructure, fencing, furniture, fixtures, office, computer and property maintenance equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be

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recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. The amount of the loss is recognized in profit or loss. The carrying amount is reduced by the impairment loss directly. There was no impairment losses recognized during the year ended December 31, 2017.

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

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

Cash and cash equivalents

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

Short-term investments

Short-term investments recorded in the consolidated financial statements include Guaranteed Investments Certificates with maturities at the time of acquisition between three months and one year.

Restricted cash and investments

Restricted cash includes balances with bank, short-term deposits and Guaranteed Investment Certificates. Pursuant to a direction from City Council, these funds, and all accumulating investment income, are to be utilized for the environmental remediation of its Port Land properties when it undertakes redevelopment at those sites.

Provisions

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

Revenue recognition

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

The Corporation has retained substantially all of the risks and benefits of ownership of its real estate properties and, therefore, accounts for leases with its tenants as operating leases.

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

Assets held-for-sale

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

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

Comprehensive income

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

Environmental costs

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

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

Property tax rebate programs

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

Financial instruments

Recognition and measurement of financial instruments

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

The Corporation has designated its cash and cash equivalents, short-term investments and restricted cash as FVTPL, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and tenant deposits are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs

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

Fair value

The fair value of a financial instrument is the amount that would be received to sell a financial asset or transfer a liability in an orderly transaction between market participants. Fair value may be based on other observable current market transactions in the same instrument, without modification, or on a valuation technique using market-based inputs. The carrying values of the Corporation's financial assets and financial liabilities approximate their fair values because of the short period of time until the receipt or payment of cash, except where separately disclosed in the notes to the consolidated financial statements.

Impairment

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

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

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

Note 3

**Critical accounting judgments, estimates and assumptions
in applying accounting policies**

Critical judgments in applying accounting policies

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

- Selection of accounting standards: The Corporation has been identified as a GBE and accordingly management considered various criteria applicable to the Corporation's business in selecting the appropriate accounting standards to follow. These criteria include whether the Corporation: (a) is a separate legal entity with powers to contract in its own name and sue and be sued; (b) has been delegated the financial and operational authority to carry on a business; (c) sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and (d) can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government. The Corporation meets all the above criteria and, therefore, follows IFRS.
- The Corporation's accounting policies relating to investment properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.
- The Corporation feels that in absence of reliable comparable market data, and alternative reliable estimates of fair value, it will not be possible to reliably measure its investment properties at fair value on a continuing basis and as a result has elected to use the cost basis model.
- The Corporation makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases, are operating or finance leases. The Corporation has determined that all of its tenant leases and long-term ground leases are operating leases.

Critical accounting estimates and assumptions

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

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

The estimates also include: (i) impairment of investment properties and financial instruments; (ii) useful lives of investment properties and the significant components thereof and of infrastructure, furniture, fixtures and equipment

used in the calculation of amortization; (iii) fair value of financial instruments; (iv) allowances for doubtful accounts; and (v) measurement of environmental provisions.

Note 4

Future accounting policy changes

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”)

IFRS 15 provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation does not expect the amendments to have a material impact on the financial statements.

IFRS 9, “Financial Instruments” (“IFRS 9”)

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity’s own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. The entity’s own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Lastly, a third measurement category for financial assets – “fair value through other comprehensive income” – will exist. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. The Corporation does not expect the amendments to have a material impact on the financial statements.

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”),

IFRS 7 has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. The Corporation does not expect the amendments to have a material impact on the financial statements.

IFRS 16, “Leases” (“IFRS 16”)

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16 lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Corporation does not expect the amendments to have a material impact on the financial statements.

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Note 5

Investment properties

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

Investment properties consist of the following:

	2017		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Land	319,830,750	-	319,830,750
Base building and structure	19,267,692	6,106,885	13,160,807
Elevator	36,125	13,762	22,363
HVAC	1,560,634	974,340	586,294
Roof	1,832,956	769,314	1,063,642
Land improvement	1,337,337	304,983	1,032,354
Paving	943,321	299,950	643,371
Yard work	1,223,225	1,218,931	4,294
Leasing commission costs	30,846	12,342	18,504
	346,062,886	9,700,507	336,362,379

	2016		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Land	320,904,064	-	320,904,064
Base building and structure	21,308,300	6,231,731	15,076,569
Elevator	36,125	12,042	24,083
HVAC	1,602,280	896,529	705,751
Roof	2,487,437	826,775	1,660,662
Land improvement	1,337,337	250,266	1,087,071
Paving	940,821	240,725	700,096
Yard work	1,223,225	1,210,346	12,879
Leasing commission costs	30,846	6,174	24,672
	349,870,435	9,674,588	340,195,847

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

	2017
	<u>\$</u>
Balance as at December 31, 2016	340,195,847
Additions and disposals:	
Capital expenditure	129,530
Disposals	(1,129,350)
Impairment loss due to fire (Note 15)	(1,560,558)
Amortization	(1,273,090)
Balance as at December 31, 2017	<u>336,362,379</u>
	2016
	<u>\$</u>
Balance as at December 31, 2015	341,502,491
Additions:	
Capital expenditure	1,148,928
Disposals	(1,140,620)
Amortization	(1,314,952)
Balance as at December 31, 2016	<u>340,195,847</u>

Gain on sale of investment properties

On May 12, 2017, the Corporation sold 3.32 acres of the investment property at 260 Eight Street for \$2,407,000 resulting in a gain of \$1,937.

On June 8, 2016, the Corporation sold the investment properties at 15 Freeland Street and 15 Cooper Street for \$11,500,000 resulting in a gain of \$10,359,365.

Note 6

Other non-current assets

Other non-current assets consist of the following:

	2017	2016
	<u>\$</u>	<u>\$</u>
Project development costs	1,696,460	1,156,139
Straight-line rent receivable	474,709	518,585
Free rent cost	29,452	53,236
Furniture, fixtures and equipment (a)	1,920,972	1,162,484
	<u>4,121,593</u>	<u>2,890,444</u>

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(a) Infrastructure, furniture, fixtures and equipment consist of the following:

	2017			2016		
	Accumulated		Net	Accumulated		Net
	Cost	Amortization		Cost	Amortization	
	\$	\$	\$	\$	\$	\$
Rail lines and infrastructure	2,130,283	349,244	1,781,039	1,277,375	257,324	1,020,051
Fencing	825,303	771,853	53,450	803,948	746,509	57,439
Furniture, fixtures and office equipment	398,949	349,561	49,388	367,846	325,930	41,916
Computer equipment	450,617	429,562	21,055	441,255	419,022	22,233
Property maintenance equipment	51,873	35,833	16,040	48,873	28,028	20,845
	3,857,025	1,936,053	1,920,972	2,939,297	1,776,813	1,162,484

Note 7

Amounts receivable

Amounts receivable consist of following:

	2017	2016
	\$	\$
Tenants	730,000	1,111,181
Others	1,559,978	1,533,555
242 Cherry fire insurance settlement (a)	7,200,000	-
City (property tax related)	774,687	2,407,434
Related parties (Note 12(c)(iii))	718,828	671,727
Allowance for doubtful accounts	(435,884)	(1,112,484)
	10,547,609	4,611,413

a) In May 2017, one of the investment properties of the corporation was damaged by fire. The clean-up and restoration operation is continuing and the amount of insurance settlement of \$7,200,000 is included in amounts receivable on December 31, 2017.

Note 8

Short-term investments

Short-term investments consist of the following:

	2017	2016
	\$	\$
Guaranteed investments certificates ("GICs")	26,050,000	7,000,000

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Note 9

Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2017	2016
	\$	\$
Cash and cash equivalents	1,598,429	2,364,022
Flexible GICs	-	18,230,491
High interest savings accounts	3,080,694	20,841
	<u>4,679,123</u>	<u>20,615,354</u>

Note 10

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2017	2016
	\$	\$
Trade payable	2,686,347	2,178,583
Accrued liabilities	1,138,396	905,908
Property tax related	1,446,047	2,537,790
Other	125,855	115,902
Construction holdbacks	76,467	12,793
Restructuring costs provision (a)	1,147,917	-
	<u>6,621,029</u>	<u>5,750,976</u>

- a) As a result of transitioning to the new City agency, CreateTO, described in note 24, the Corporation has made a provision of \$1,200,000 as restructuring costs, of which \$52,083 was incurred in 2017. A net provision of \$1,147,917 is recorded as accounts payable and accrued liabilities.

Note 11

Tenants' deposits and prepaid rents

Tenants' deposits and prepaid rents consist of the following:

	2017	2016
	\$	\$
Tenant deposits	400,315	400,315
Prepaid rents	7,715,878	7,932,506
	8,116,193	8,332,821
Less: current portion	323,271	365,101
	<u>7,792,922</u>	<u>7,967,720</u>

Included in prepaid rents is \$7,567,406 (2016 - \$7,742,204) deferred rental revenue from the Toronto Hydro Electric Commission for two 99-year leases and from St. Mary's Cement Corporation for a 20-year lease.

Note 12

Related party transactions

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

Related party	Relationship
City of Toronto ("City")	parent and shareholder
Build Toronto Inc. ("BTI")	same parent
Invest Toronto Inc. ("ITI")	same parent

a) City of Toronto

- i) Included in amounts receivable are amounts due from the City of \$1,189,410 (2016 - \$2,908,413) for rent, hydro, realty tax adjustments and the City's share of project study costs. Included in accounts payable and accrued liabilities are amounts due to the City of \$1,264,286 (2016 - \$1,918,732), which have arisen as a result of charges for realty taxes, hydro and water.
- ii) Included in rental property operating expenses are realty taxes and water charges of \$192,240 (2016 - \$177,764) from the City.
- iii) The Corporation previously carried out the activities and staffing of the incubator program. Subject to a City Council decision in October 2008 effective January 1, 2009, the Corporation's incubator program will be managed by the City within its Economic Development and Culture Division. The City and the Corporation entered into a grant agreement for an initial term of two years, which is automatically renewed unless the City elects not to renew the agreement for an additional term. This grant agreement was not renewed in 2016. From 2016, the City directed a payment to be made by the Corporation to the incubator program by way of a dividend. The amount is included as a dividend in the statement of equity.

b) Build Toronto Inc.

BTI sold a portion of 260 8th Street on May 12, 2017 (note 5). The Corporation reimbursed BTI for out of pocket expenses of \$490,647 and paid BTI project management fee of \$276,235 in connection with the sale, in accordance with the consulting agreement entered by the Corporation with BTI as described in note 20(e).

c) Invest Toronto Inc.

- i) Subject to a City council report in October 2008, the Corporation was directed to assist and support the start-up of two new municipal corporations, ITI and BTI. As a result, a five-year grant agreement effective January 1, 2009 was executed with ITI to provide funding up to specified funding maximums identified in the grant agreement. At the end of the five-year term ended December 31, 2013, the grant agreement was automatically renewed for two additional one-year periods for a grant amount agreed to by the Board of Directors of both Corporations. The grant agreement was not renewed on October 1, 2016.
- ii) No grant was given to ITI during 2017. In 2016, the Corporation provided a grant of \$2,025,000 to ITI to fund its operating and capital expenditures. This grant is included in the consolidated statement of net income and comprehensive income.
- iii) Included in amounts receivable is an amount of \$718,828 (2016 - \$671,727) due from ITI relating to the timing of funds advanced for its operating and capital expenditures.

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- iv) The Corporation has agreed with ITI to share certain administrative, accounting and other corporate services on a cost allocation basis. The allocation of these costs to ITI for the year is \$26,356 (2016 - \$129,010).

Note 13

Consolidated statement of cash flows

(a) Items not affecting cash

For the years ended December 31	2017	2016
	\$	\$
Amortization of investment properties and tenant improvements	1,432,330	1,433,998
Amortization of free rent cost	23,784	23,784
Gain on sale of investment properties	(1,937)	(10,359,365)
Net proceeds from insurance settlement	(4,885,442)	-
Prepaid rents recognized	(216,628)	(104,578)
Straight-line rent receivable	43,876	(92,762)
	(3,604,017)	(9,098,923)

(b) Net change in operating assets and liabilities

For the years ended December 31	2017	2016
	\$	\$
Amounts receivable	1,263,804	2,106,799
Accounts payable and accrued liabilities	556,773	(1,958,255)
Prepaid expenses	121,950	348,710
Tenant deposits	-	11,199
	1,942,527	508,453

Demolition and restoration costs include a year-end accrual of \$313,280.

Note 14

Revenue from investment properties

Investment property rental revenue comprises the following:

For the years ended December 31	2017	2016
	\$	\$
Leases	8,695,229	8,819,165
Licences	4,603,038	4,113,782
Parking and other revenue	497,948	528,416
Recoverable operating costs and property taxes	3,808,987	3,605,112
	17,605,202	17,066,475

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Future minimum rents receivable are as follows:

	<u>\$</u>
2018	10,465,872
2019	5,702,311
2020	3,578,074
2021	2,561,447
2022	2,440,586
Thereafter	87,718,042
	<u>112,466,332</u>

Note 15

Net proceeds from insurance settlement

Net proceeds from insurance settlement represent excess of insurance settlement over the net book value of assets written-off and provision for demolition and restoration of the property damaged by fire described in note 7.

Note 16

Investment property operating expenses

Investment property operating expenses comprise the following:

For the years ended December 31	2017	2016
	<u>\$</u>	<u>\$</u>
Repairs and maintenance	926,732	1,171,304
Property taxes	3,387,583	3,115,167
Administrative	147,369	146,294
Utilities	998,607	1,177,970
Bad debts	96,636	19,934
	<u>5,556,927</u>	<u>5,630,669</u>

Note 17

General and administrative expenses

General and administrative expenses comprise the following:

For the years ended December 31	2017	2016
	<u>\$</u>	<u>\$</u>
Salaries and expenses	2,728,983	2,722,362
Professional fees	122,555	826,981
Luminato 2016	-	100,000
Office services	845,053	843,189
	<u>3,696,591</u>	<u>4,492,532</u>

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Note 18

Amortization

For the years ended December 31	2017	2016
	\$	\$
Investment properties (note 5)	1,266,922	1,308,778
Other non-current assets	117,264	70,940
Computers, office property and equipment	41,976	48,106
	1,426,162	1,427,824
Leasing commission (note 5)	6,168	6,174
	1,432,330	1,433,998

Note 19

Commitments

Effective June 1, 2012, the Corporation entered into an operating lease with Oxford Properties Group Inc. for a period of five years expiring May 31, 2017, at an annual rent of \$195,909. The agreement has been extended to May 31, 2019 at an annual rent of \$201,376. The Corporation has assigned the lease to the City of Toronto, a related party, from February 1, 2018.

Note 20

Contingencies

- a) The Corporation is subject to various legal claims arising in the normal course of its operations. The ultimate outcome of these claims cannot be determined at this time. However, the Corporation's management believes the ultimate resolution of these matters will not have a material adverse effect on these consolidated financial statements.
- b) Pursuant to an agreement to provide support to Medical and Related Science Discovery District ("MaRS") related to its facility in a heritage designated building, the Corporation has provided a \$500,000 undertaking to the City for the successful completion of the facility.
- c) The Corporation may be required to satisfy an asset retirement obligation for environmental contamination left by tenants or former owners of certain properties in the Port lands. The obligation to remedy the contamination is contingent on uncertain future events, including contamination levels exceeding acceptable levels, as prescribed by the Ontario Ministry of the Environment. The obligation to remedy the contamination may also result from the Corporation and its parent, the City, agreeing to development plans for the lands. The valuation of the asset retirement obligation has been estimated at \$47,600,000 at most, but given the uncertainty of when remediation will take place or the total costs expected to actually be incurred, this provision has been determined to not be reliably measurable and, accordingly, has not been recognized for accounting purposes.
- d) The Corporation has been advised of a legal matter related to a tax abatement program for a property where the grants received and accrued to date of approximately \$899,024 may be repayable under certain default conditions. The property was sold to a third party in 2006 and the Corporation is seeking to provide an indemnity to the City should a default condition arise until the expiry of the program in 2018.
- e) Pursuant to a consulting agreement entered by the Corporation with BTI on January 1, 2014 in connection with the sale of 260 Eight Street and 124 Birmingham Street, the Corporation will pay BTI all reasonable third party expenses from August 1, 2013 and after, subject to providing sufficient information and submission for the Corporation's Board approval. All expenses shall be paid out of the closing proceeds of

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sale. Net proceeds, after deducting all third party expenses and BTI's out-of-pocket expenses will be distributed, with the Corporation receiving 80% and BTI 20%. As at December 31, 2017, BTI reported expense of \$195,861 (2016 - \$458,277) on the remaining parcel. This expense is not recorded as a payable of the Corporation.

Note 21
Employee benefits

Post-employment benefits

The Corporation makes contributions to the Ontario Municipal Employees' Retirement Fund ("OMERS"), which is a multi-employer pension plan, on behalf of some of its employees. This pension plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to this pension plan.

Since OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the Corporation does not recognize any share of the OMERS pension surplus or deficit. The Corporation's current service contributions to the OMERS pension plan in 2017, which were expensed, totalled \$272,156 (2016 - \$264,475) and are included in salaries and employee benefits expense on the consolidated statement of net income and comprehensive income.

Key management compensation

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

For the years ended December 31	2017	2016
	\$	\$
Salaries and other short-term employee benefits	813,964	806,877
Salaries and other compensation relating to Corporate restructure	993,092	-
	<u>1,807,056</u>	<u>806,877</u>

In 2017, \$25,992 (2016 - \$Nil) was allocated to Toronto Global and \$ 13,108 (2016 - \$16,390) to ITI as part of shared services. \$774,561 is the net balance.

Note 22
Financial instruments

a) Fair value through profit or loss

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

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IFRS requires disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of a financial asset or financial liability as at the consolidated financial statement date. The three levels are defined as follows:

- Level 1 - Fair value is based on quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3 - Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As at December 31, 2017, cash and cash equivalents of \$4,679,123 (2016 - \$20,615,354) and restricted cash and investments of \$16,223,295 (2016 - \$15,974,013) are classified in the Level 1 category.

Short-term investments are classified as Level 1 financial instruments as they consist of Guaranteed Investment Certificates.

b) Risk management

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

- Credit risk

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

The Corporation, in the normal course of business, is exposed to credit risk from its tenants. This risk is mitigated by the fact that management believes the Corporation has thorough and rigorous credit approval procedures. The Corporation provides for an allowance for doubtful accounts to absorb potential credit losses.

Cash and cash equivalents, short-term investments and restricted cash and investments consist of deposits with major commercial banks. It is management's assessment that the credit risk associated with these balances is negligible.

Management believes the Corporation's credit risk is low.

- Market risk

The Corporation is exposed to changes in electricity prices associated with the wholesale spot market for electricity in Ontario. The Corporation has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through its participation in an agreement entered into by the City that fixes a portion of the wholesale price over the term of the contract.

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- Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has \$6,507,029 of accounts payable and accrued liabilities that are due within one year. The Corporation has cash and cash equivalents, short-term investments and amounts receivable that are sufficient to satisfy these liabilities.

- Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Corporation's interest rate exposure arises from its investments in Guaranteed Investment Certificates and high interest savings accounts (notes 8 and 9). The fixed rate nature of GICs reduces the risk of interest rate fluctuations over the term of the investments and therefore a change in interest rates at the year-end would not impact income.

Note 23

Capital management

The Corporation's capital comprises shareholder's equity.

In managing capital, the Corporation focuses on liquid resources available for operations. The Corporation's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget. As at December 31, 2017, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.

Note 24

Subsequent event

City-wide real estate review

In 2016, the City Council undertook a City-wide Real Estate Review to derive an approach that will strengthen the financial processes, strategic planning, oversight and decision-making involving its real estate portfolios. As part of the transformation, the real estate assets of some of the City real estate entities will be managed centrally under CreateTO, a newly established agency, to be put into best use through implementing a holistic City building strategy, balancing the community and economic benefits. The transformation will take two to four years before the whole framework is established.

Effective January 1, 2018, employees of the Corporation became employees of CreateTO in alignment with the transformation objectives to provide real estate development and management services and this resulted in the Corporation accruing a restructuring cost of \$1,200,000 in December 2017.