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

Consolidated Financial Statements

December 31, 2018

Independent auditor's report

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

Our opinion

In our opinion, the accompanying 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 and its subsidiaries (together, the Company) as at December 31, 2018 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 (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of net income and comprehensive income for the year then ended;
- the consolidated statement of shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Annual Report.

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May 14, 2019

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Statements of Financial Position

As at	Notes	December 31, 2018	December 31, 2017
		$	$
ASSETS			
Non-current assets			
Investment properties	5	365,558,005	336,362,379
Restricted cash and investments		16,397,073	16,223,295
Other non-current assets	6	4,598,242	4,121,593
Total non-current assets		386,553,320	356,707,267
Current assets			
Due from related parties	12(d),(c)(i)	1,000,197	718,828
Amounts receivable and other assets	7, 12	2,680,977	9,837,456
Short-term investments	8	10,921,400	26,050,000
Cash and cash equivalents	9	20,648,386	4,679,123
Total current assets		35,250,960	41,285,407
Total assets		421,804,280	397,992,674
LIABILITIES AND SHAREHOLDER'S EQUITY			
Non-current liabilities			
City of Toronto loan	12(a)(iii)	7,226,215	-
Tenants' deposits and prepaid rents	11	7,664,108	7,792,922
Total non-current liabilities		14,890,323	7,792,922
Current liabilities			
Current portion of City of Toronto loan	12(a)(iii)	273,785	-
Dividend payable		3,000,000	-
Amounts payable and accrued liabilities	10, 12	15,666,266	6,621,029
Prepaid rents	11	410,905	323,271
Total current liabilities		19,350,956	6,944,300
Total liabilities		34,241,279	14,737,222
Shareholder's equity		387,563,001	383,255,452
Total liabilities and shareholder's equity		421,804,280	397,992,674
Commitments and contingencies	20, 21		

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

Approved by Board:

(Signed by) "Ron Carinci"
Director

(Signed by) "Dino Chiesa"
Director

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

For the years ended December 31	Notes	2018	2017
		$	$
Rental income			
Rental revenue	14	18,392,439	17,605,202
Rental expenses	16, 12(a)(ii)	6,535,512	5,808,495
Net rental income		11,856,927	11,796,707
Other income and (expenses)			
Interest and investment income		811,664	635,853
Amortization	18	(1,522,013)	(1,432,330)
General and administrative expenses	17, 12(c)(ii)	(3,760,181)	(3,657,133)
Restructuring costs	10(a)	348,967	(1,200,000)
Impairment loss due to The Flood Protection Project	19	(432,233)	-
Net proceeds from insurance settlement	15	-	4,885,442
Gain on sale of investment properties	5(b)	5,157,543	1,937
Interest expense	12(a)(iii)	(153,125)	-
Total other income/(expenses)		450,622	(766,231)
Net income and comprehensive income		12,307,549	11,030,476

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

City of Toronto Economic Development Corporation
c.o.b. Toronto Port Lands Company
Consolidated Statements of Shareholder's Equity
Years ended December 31, 2018 and 2017

	Notes	Common Share	Contributed surplus	Retained Earnings	Total Shareholder's Equity
		$	$	$	$
Balance, as at December 31, 2016		1	-	377,333,898	377,333,899
Net income for the year		-	-	11,030,476	11,030,476
Dividends		-	-	(5,108,923)	(5,108,923)
Balance, as at December 31, 2017		1	-	383,255,451	383,255,452
Net income for the year		-	-	12,307,549	12,307,549
Dividend		-	-	(3,000,000)	(3,000,000)
675 Commissioners rail relocation and improvements	5	-	(5,000,000)	-	(5,000,000)
Balance, as at December 31, 2018		1	(5,000,000)	392,563,000	387,563,001

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

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

For the year ended December 31,	Notes	2018	2017
		$	$
OPERATING ACTIVITIES			
Net income		12,307,549	11,030,476
Items not affecting cash and other adjustments	13(a)	(3,147,958)	(3,604,017)
Net change in operating assets and liabilities	13(b)	(2,831,492)	1,942,527
Cash provided by operating activities		6,328,099	9,368,986
FINANCING ACTIVITIES			
Increase in City of Toronto loan	12(a)(iii)	7,500,000	-
Payment of dividends		-	(5,108,923)
Cash provided by (used in) financing activities		7,500,000	(5,108,923)
INVESTING ACTIVITIES			
Sale (Purchase) of short-term investments		15,128,600	(19,050,000)
Increase in restricted cash and investments		(173,778)	(249,282)
Increase in other non-current assets		(853,890)	(1,458,049)
Decrease in cash for demolition and restoration costs relating to fire		-	(440,720)
Collection of net proceeds from insurance settlement on 2017 fire	7(a)	7,150,000	-
Net proceeds from sale of investment properties	5(b)	13,477,857	1,131,287
Additions to investment properties	5,10(b)	(32,587,625)	(129,530)
Cash (used in) investing activities		2,141,164	(20,196,294)
Increase (Decrease) in cash and cash equivalents during the year		15,969,263	(15,936,231)
Cash and cash equivalents, beginning of year		4,679,123	20,615,354
Cash and cash equivalents, end of year	9	20,648,386	4,679,123

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

Note 1
ORGANIZATION

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. As a municipal corporation under Section 149(1) of the *Income Tax Act* (Canada), the Corporation is exempt from income taxes. The address of its registered office is 200 King Street West, Suite 200, Toronto, Ontario, Canada.

Note 2
SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis of presentation

The Corporation has been designated as a Government Business Enterprise ("GBE") and accordingly prepares its consolidated financial statements in accordance with IFRS. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is the Corporation's functional currency. The consolidated financial statements have been prepared under the historical cost convention. All values are rounded to the nearest dollar, unless otherwise indicated.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries at December 31, 2018:

- 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 8th Street and 124 Birmingham Street, Etobicoke, as a nominee corporation pursuant to TPLC's shareholder's direction.

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

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

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.

Real estate assets

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.

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. 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.

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 recoverable 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, 2018, impairment losses were recognized on the Corporation's investment properties as listed in note 19 (2017 - note 15).

Other non-current assets

Other non-current assets include project development costs, rail lines and infrastructure, fencing, furniture, fixtures and office equipment, computer equipment and property maintenance equipment. Other non-current assets, except project development costs, 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:

	Useful life (years)
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 and office equipment, computer equipment and property maintenance equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. The amount of the loss is recognized in profit or loss. The carrying amount is reduced by the impairment loss directly. Impairment losses were recognized during the year ended December 31, 2018 in note 19 (2017 – note 15).

Other non-current 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 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.

Revenue recognition

Effective January 1, 2018, the Corporation has adapted IFRS15, "Revenue from Contracts with Customers" ("IFRS 15"), on a modified retrospective basis with no restatement of comparatives (see Note 3). Base rental income and property tax recoveries earned from leases ("rental revenue") is outside the scope of

IFRS 15 and is therefore not impacted by the new standard. The prior comparative period was reported under IAS 18, "Revenue" ("IAS 18"). The adoption has no impact on the timing and amount of revenue recognized.

Rental revenue

The Corporation accounts for tenant leases as operating leases, given that it has retained substantially all of the risks and benefits of ownership of its investment properties. Rental revenue includes base rents, property tax recoveries, lease termination fees, and other rental revenue including recoveries for landlord work and tenant improvement allowances. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other non-current assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. Property tax recoveries are recognized as revenues in the period in which the corresponding obligation arises and collectability is reasonably assured. Other revenues are recorded as earned.

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.

IAS 18: The above discussion also applies to recoveries of operating expenses in the 2017 period.

Revenue from contracts with customers ("IFRS 15")

Revenue from contracts with customers primarily includes recoveries of operating expenses and recoveries of capital expenditures from tenants in accordance with their leases ("recoveries revenue").

Consideration received from tenants under lease agreements is allocated between rental revenue and recoveries revenue based on relative stand-alone selling prices. For recoveries revenue, the Corporation's performance obligations are satisfied over time as tenants occupy the premises. Recoveries revenue is billed monthly to tenants based on budgeted estimates.

The Corporation recognizes recoveries revenue for operating expenses based on actual costs incurred in accordance with the terms of the related leases. Actual costs reflects the services provided. The Corporation recognizes recoveries revenue for capital expenditures over the asset's expected useful life in accordance with the terms of the related leases. The amount of recoveries revenue is determined by the actual costs incurred and any restrictions in lease agreements. If the services rendered exceed the monthly charges billed, a receivable is recognized; if the monthly charges billed exceed the service rendered, a payable is recognized.

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.

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 when a reliable estimate can be made.

The lands are periodically assessed to determine whether an outflow of resources has become probable and can be reliably measured. If it becomes probable that an outflow of resources 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 - classification

The following table summarizes the Corporation's classification and measurement of financial assets and financial liabilities:

	December 31, 2018	December 31, 2017	
	Classification and measurement	Classification and measurement	
	IFRS 9	IAS39	
Financial assets			
Restricted cash and investments	**Amortized cost**	Loans and receivables	Fair value
Due from related parties	**Amortized cost**	Loans and receivables	Amortized cost
Amounts receivable	**Amortized cost**	Loans and receivables	Amortized cost
Short-term investments	**Amortized cost**	Loans and receivables	Fair value
Cash and cash equivalents	**Fair value through profit and loss**	Loans and receivables	Fair value
Financial liabilities			
City of Toronto loan	**Amortized cost**	Financial liabilities	Amortized cost
Tenants' deposits	**Amortized cost**	Financial liabilities	Amortized cost
Dividend payable	**Amortized cost**	Financial liabilities	Amortized cost
Amounts payable and accrued liabilities	**Amortized cost**	Financial liabilities	Amortized cost

Effective January 1, 2018, the Corporation classifies its financial instruments as follows:

I. **Financial assets**

The Corporation classifies its financial assets that give rise to specified payments of principal and interest as amortized costs, unless the Corporation plans to sell the financial asset, which is then classified as fair value through other comprehensive income (FVOCI). All other financial assets are classified as fair value through profit and loss (FVTPL).

Amounts receivable are initially measured at fair value and are subsequently measured at amortized cost less a provision for impairment on amounts receivable is established based on the Expected Credit Loss (ECL) model. Under the ECL model, the Corporation estimates lifetime expected losses for its amounts receivable at each balance sheet date based on available information to determine if there is the need to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized in the consolidated statements of income and comprehensive income within operating expenses. Bad debt write-offs occur when the Corporation determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income and comprehensive income.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial assets expired or the Corporation transfers substantially all risks and rewards of ownership.

II. Financial liabilities

The Corporation classifies its financial liabilities on initial recognition as either FVTPL or as amortized cost. Financial liabilities are initially recognized at fair value less related transaction costs. Financial liabilities classified as amortized cost are measured using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in net income in the consolidated statements of income and comprehensive income over the expected life of the debt. Modifications of financial liabilities carried at amortized costs that do not result in derecognition give rise to a revaluation gain or loss equal to the change in discounted contractual cash flows using the effective interest rate method. This revaluation gain or loss is recognized in the consolidated statements of comprehensive income (loss). The Corporation's financial liabilities that are classified as FVTPL are initially recognized at fair value and are subsequently re-measured at fair value each reporting period, with changes in the fair value recognized in the consolidated statements of income and comprehensive income.

Prior to January 1, 2018, at initial recognition, the Corporation classified its financial instruments in the following categories:

I. Loans and receivables

The Corporation's loans and receivables comprise due from related parties, amounts receivable, short-term investments, cash and cash equivalents and restricted cash and investments, and are included in current and non-current assets depending on their maturities. Due from related party and amounts receivable are measured at amortized cost, short-term investments and cash and cash equivalents are measured at fair value.

II. Financial liabilities

Financial liabilities are recorded at amortized cost and include amounts payable and tenants' deposits. These financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

iii. Impairment of financial assets

At each reporting date, the Corporation 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 financial assets 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 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 net income and comprehensive income.

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

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 net income and comprehensive income.

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 and brokers.

Fair value of financial instruments

The Corporation classifies the fair value of its financial instruments based on the amount of observable inputs used to value the instrument. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation uses observable inputs, and when all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The fair value of financial instruments is based upon discounted future cash flows using estimated market rates that reflect current market conditions for instruments with similar terms and risk.

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 and investments include 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 certain Port Land properties when it undertakes redevelopment at those sites.

Deferred costs

Leasing costs such as legal fees and commissions, tenant allowances and free rent associated with tenant leases are amortized over the entire term of leases. Step-up rent are straight-lined and the adjustment is spread over the term of the leases.

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.

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.

Fair value of real estate investment properties

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. 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.

Impairment of financial assets

IFRS 9, Financial Instruments, requires management to use judgment in determining whether the Corporation's financial assets require a provision for impairment. The Corporation's financial assets are subject to the ECL model whereby the Corporation's estimates, on a forward looking basis, possible default scenarios and establishes a provision matrix that considers various factors including industry and sector performance, economic and technological changes and other external market indicators.

Fair value of financial instruments

Assessing fair value of financial instruments requires significant estimates of future cash flows and appropriate discount rates.

The Corporation's financial instruments, consisting of due from related parties, amounts receivable, short-term investments, cash and cash equivalents, restricted cash and investments, amounts payable and accrued liabilities and tenants deposits, are measured at amortized cost which approximates fair value due to their short-term nature. The long-term City of Toronto loan was advanced during the year, management has concluded that the carrying amount approximates fair value at December 31, 2018.

Other

The estimates also include: (i) useful lives of investment properties and the significant components thereof and of infrastructure, furniture, fixtures and equipment used in the calculation of amortization; and (ii) measurement of environmental provisions.

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 in Note 2. 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, identifying the directly attributable borrowing costs to be included in the carrying value of the development property, and determining if there are indications of impairment for non-financial assets.

- The Corporation feels that in absence of reliable comparable market data, and alternative reliable estimates of fair value, it is not presently 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 (Note 5).

- 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.

- An asset retirement obligation for environment contamination has not been recognized for accounting purposes as the Corporation has determined that the amount of such obligation cannot be reliably measured at this time (Note 21(b)).

Note 3
NEW ACCOUNTING STANDARDS ADOPTED IN 2018

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IAS 40, Investment Property (IAS 40)

Amendments to IAS 40 have been made to provide clarification on when a corporation should transfer property under construction or development into, or out of investment property. The transfer should take place when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The application of the amendments is effective for annual periods beginning or after January 1, 2018, with earlier application permitted. The Corporation's adoption of these amendments did not result in a material impact to the consolidated financial statements.

IFRS 7, Financial Instruments: Disclosures (IFRS 7)

Amendments to IFRS 7 have been made to require additional disclosures on transition from IAS 39 to IFRS 9. These disclosures are effective on adoption of IFRS 9 and did not result in a material impact on the consolidated financial statements.

IFRS 9, Financial Instruments (IFRS 9)

This standard, replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS39"), in its entirety, addresses the classification, measurement and recognition of financial assets and financial liabilities and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. While determination is made at initial recognition, classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change

due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation's adoption of the amendment did not result in a material impact on the consolidated financial statements.

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

Effective January 1, 2018, the Corporation has applied 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 judgment and made estimates that affect revenue recognition.
The Corporation has adopted IFRS 15 on a modified retrospective basis. In applying IFRS 15, the Corporation used the practical expedient in the standard that permits contracts which were completed prior to the transition date to not be assessed.

As a result of adopting IFRS 15, there were no adjustments to the consolidated statement of financial position as at January 1, 2018. The accounting policies applied under the new standard are disclosed in Note 2.

The new standard has no impact on the timing and amount of revenue recognized. Additional disclosures have been included in Note 14 to the consolidated financial statements. Revenue under the financial statement caption "Rental revenue" in the consolidated statements of net income and comprehensive income is now split out as "Revenue from contracts with customers" and "Rental revenue".

Note 4
FUTURE ACCOUNTING POLICY CHANGES

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 prospectively, with earlier application permitted for entities that apply IFRS 15. The Corporation has not early adopted IFRS 16 but is currently evaluating the impact of IFRS 16 on its consolidated financial statements. The Corporation's preliminary assessment has identified no material impact of the implementation of IFRS 16.

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:

			2018
	Cost	**Accumulated Amortization**	**Net**
	$	$	$
Land	337,136,789	-	337,136,789
Base building and structure	30,666,843	6,993,782	23,673,061
Elevator	100,641	17,095	83,546
HVAC	1,942,010	1,084,191	857,819
Roof	2,888,114	927,651	1,960,463
Land improvement	1,337,337	359,698	977,639
Paving	1,014,997	158,645	856,352
Yard work	1,223,225	1,223,225	-
Leasing commission costs	30,846	18,510	12,336
	376,340,802	**10,782,797**	**365,558,005**

			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**

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

	2018 $
Balance as at December 31, 2017	336,362,379
Additions and disposals:	
Acquisition (a)	33,660,655
Capital expenditure	574,793
Disposals (b)	(3,280,428)
Impairment loss due to Flood Protection Project (Note 19)	(417,136)
Amortization	(1,342,258)
Balance as at December 31, 2018	**365,558,005**

	2017 $
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	**336,362,379**

Gain on sale of investment properties

On June 28, 2018, the Corporation purchased the former Showline film studio property at 915 and 945 Lakeshore Boulevard East, and to facilitate the transaction, the Corporation sold an investment property at 675 Commissioners Street under an umbrella agreement linking the two transactions.

As a condition of the acquisition and sale, estimated remediation costs in the amount of $5 million for 675 Commissioners and estimated business disruption costs in the amount of $2 million were granted to the purchaser.

As part of the site remediation at 675 Commissioners Street, the Corporation needs to remove a section of rail line from the site and relocate and construct a new and improved rail line along an adjacent street. The estimated cost for this improvement to the infrastructure of the Portlands of $5 million was allocated to equity as a distribution in kind to the shareholder as this expenditure results in an upgrade of the City's rail line.

The City provided financing in the amount of a loan of $7.5 million to facilitate the transaction (note 12(a)(iii)).

(a) Acquisition costs of 915 and 945 Lakeshore Boulevard East are as follows:

	$
Purchase price of 915 and 945 Lakeshore Boulevard East	30,892,912
Closing costs	767,743
Business disruption provision	2,000,000
Total acquisition costs	**33,660,655**

(b) Proceeds and gain on sale of 675 Commissioners Street are as follows:

	$
Proceeds from sale of 675 Commissioners street	**14,273,140**
Cost of sale of 675 Commissioners Street:	
Book costs on disposal of 675 Commissioners Street	(3,280,428)
Book costs on disposal of rail and infrastructure	(39,886)
Closing costs	(795,283)
Provision for site remediation	(5,000,000)
Total cost of sale	(9,115,597)
Gain on sale of 675 Commissioners Street	**5,157,543**

(c) On May 12, 2017, the Corporation sold 3.32 acres of the investment property at 260 8th Street for $2,407,000 resulting in a gain of $1,937.

Note 6
OTHER NON-CURRENT ASSETS
Other non-current assets consist of the following:

	2018	**2017**
	$	**$**
Project development costs	2,240,060	1,696,460
Straight-line rent receivable	263,099	474,709
Free rent cost	98,559	29,452
Furniture, fixtures and equipment (a)	1,996,524	1,920,972
	4,598,242	**4,121,593**

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

		2018			2017	
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	$	$	$	$	$	$
Rail lines and infrastructure	2,114,919	242,761	1,872,158	2,130,283	349,244	1,781,039
Fencing	829,741	776,642	53,099	825,303	771,853	53,450
Furniture, fixtures and office equipment	408,099	365,338	42,761	398,949	349,561	49,388
Computer equipment	459,727	442,280	17,447	450,617	429,562	21,055
Property maintenance equipment	51,873	40,814	11,059	51,873	35,833	16,040
	3,864,359	**1,867,835**	**1,996,524**	**3,857,025**	**1,936,053**	**1,920,972**

Note 7
AMOUNTS RECEIVABLE AND OTHER ASSETS

Amounts receivable and other assets consist of following:

	2018	2017
	$	$
Tenants	1,463,316	730,000
HST refund	46,295	51,200
Others	704,558	1,508,778
Prepaid expenses	8,172	8,675
242 Cherry fire insurance settlement (a)	-	7,200,000
City (property tax related)	994,520	774,687
Allowance for doubtful accounts	(535,884)	(435,884)
	2,680,977	**9,837,456**

a) In May 2017, one of the investment properties of the corporation was damaged by fire. The amount of insurance settlement of $7,200,000 was included in amounts receivable on December 31, 2017 and received in 2018.

Note 8
SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	2018	2017
	$	$
Guaranteed investments certificates ("GICs")	10,921,400	26,050,000

Note 9
CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist of the following:

	2018	2017
	$	$
Cash and cash equivalents	5,908,746	1,598,429
Flexible GICs	14,710,506	-
High interest savings accounts	29,134	3,080,694
	20,648,386	**4,679,123**

Note 10
AMOUNTS PAYABLE AND ACCRUED LIABLIITIES
Amounts payable and accrued liabilities consist of the following:

	2018	2017
	$	$
Trade payable	1,606,294	2,686,347
Accrued liabilities	860,886	1,138,396
Property tax related	1,373,172	1,446,047
Due to related party	4,390	-
Other	78,701	125,855
Construction holdbacks	-	76,467
Restructuring costs provision (a)	95,000	1,147,917
Rail relocation and improvements costs accrual (b)	4,647,823	-
675 Commissioners street site remediation costs provision	5,000,000	-
Business disruption provision	2,000,000	-
	15,666,266	**6,621,029**

a) Restructuring costs provision

In May 2017, a new agency of the City, CreateTO (formerly known as Toronto Realty Agency) was established to manage the City's real estate portfolio, develop and manage City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations. To facilitate the transition, the Corporation's business office was relocated to 200 King Street West and the employees were transferred to the new Agency effective January 1, 2018.

A provision for restructuring was estimated as $1,200,000 at the end of 2017; $756,033 was incurred in 2018 and the remaining provision was revised to $95,000 on December 31, 2018, resulting in an excess provision of $348,967 taken back to the consolidated statement of net income and comprehensive income in 2018.

b) Costs of $352,177 were incurred during the year in respect of this accrual and are included in additions to investment properties in the statement of cash flows.

Note 11
TENANTS' DEPOSITS AND PREPAID RENTS
Tenants' deposits and prepaid rents consist of the following:

	2018	**2017**
	$	**$**
Tenant deposits	446,299	400,315
Prepaid rents	7,628,714	7,715,878
	8,075,013	8,116,193
Less: current portion	410,905	323,271
	7,664,108	**7,792,922**

Included in prepaid rents is $7,392,607 (2017 - $7,567,406) deferred rental revenue from the Toronto Hydro Electric Commission for two 99-year leases expiring in 2094 and one from St. Mary's Cement Corporation for a 20-year lease expiring in 2028.

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**
CreateTO ("CTO")	same parent
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 $1,251,393 (2017 - $1,189,410) for hydro, realty tax adjustments and the City's share of project study costs. Included in amounts payable and accrued liabilities are amounts due to the City of $1,169,704 (2017 - $1,264,286), which have arisen as a result of charges for realty taxes, hydro, water and loan interest.

ii) Included in rental property operating expenses are realty taxes and water charges of $212,319 (2017 - $192,240) from the City.

iii) The City has provided the Corporation a 20 year loan of $7.5 million on May 30, 2018 to finance the purchase of 915 and 945 Lake Shore Boulevard East (Note 5(a)) at 3.5% interest per annum. Principal repayment will commence in February 2019, six months after the Corporation entered into a lease with a tenant for the property. The repayment is in semi-annual blended payment of principal and interest of $266,955 until maturity of the loan on May 30, 2038 when any remaining

principal is to be fully repaid. As at December 31, 2018, the balance outstanding on the loan is $7.5 million (2017-Nil). Interest expense paid to the City during the year was $153,125 (2017-Nil).

b) Build Toronto Inc.

Included in amounts payable and accrued liabilities is an amount $4,390 payable to BTI for expense reimbursement (2017 – Nil). In 2017, 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 21(c). No amounts were paid in 2018.

c) Invest Toronto Inc.

i) Included in due from related parties in 2017 is an amount of $718,828 due from ITI relating to the timing of funds advanced for its operating and capital expenditures. This amount was paid in 2018.

ii) 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 2017 is $26,356. In 2018, no costs were allocated to ITI.

iii) Invest Toronto is in the process of being wound up pursuant to the City's direction on July 12, 2016.

d) CreateTO

Pursuant to an agreement between CTO and the Corporation entered into in 2017 (Note 17(a)), effective January 1, 2018, CTO provides the Corporation services in return for management fees. The balance, as at December 31, 2018 is $1,000,197 (2017 - $Nil) which is included in due from related parties. This amount represents an advance on service fees for the next quarter.

There is no set term of repayment of this account balance and no interest is being paid to the Corporation.

For the year ended December 31, 2018, the management fees charged by CTO to the Corporation is $3,760,181 (2017-Nil).

Note 13
CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items not affecting cash and other adjustments

For the years ended December 31	**2018**	**2017**
	$	**$**
Amortization of investment properties and tenant improvements	1,522,013	1,432,330
Amortization of free rent cost	(69,107)	23,784
Gain on sale of investment properties	(5,157,543)	(1,937)
Impairment loss due to Flood Protection Project	432,233	-
Net proceeds from insurance settlement	-	(4,885,442)
Prepaid rents recognized	(87,164)	(216,628)
Straight-line rent receivable	211,610	43,876
	(3,147,958)	**(3,604,017)**

(b) Net change in operating assets and liabilities

For the years ended December 31	**2018**	**2017**
	$	**$**
Due from related parties	(281,369)	(47,101)
Amounts receivable and other assets	6,479	1,432,855
Amounts payable and accrued liabilities	(2,602,586)	556,773
Tenant deposits	45,984	-
	(2,831,492)	**1,942,527**

Note 14
RENTAL REVENUE
Rental revenue comprises the following:

	2018	**2017**
	$	**$**
Rental revenue		
Leases	8,577,530	8,695,229
Recoverable realty taxes	3,689,029	2,736,372
Licences	5,123,553	5,038,571
Revenue from contracts with customers		
Other revenue	56,441	62,415
Recoverable operating costs	945,886	1,072,615
Total rental revenue	**18,392,439**	**17,605,202**

Future minimum rents receivable are as follows:

	$
2019	9,823,335
2020	6,191,760
2021	5,216,729
2022	5,156,843
2023	3,250,552
Thereafter	92,551,124
	122,190,343

Note 15

NET PROCEEDS FROM INSURANCE SETTLEMENT

2017 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(a).

Note 16

RENTAL EXPENSES

Rental expenses comprise the following:

For the years ended December 31	**2018**	**2017**
	$	$
Repairs and maintenance	1,155,737	926,732
Property taxes	4,219,904	3,387,583
Environmental monitoring	25,909	212,110
Administrative	139,695	186,827
Utilities	890,816	998,607
Bad debts	103,451	96,636
	6,535,512	**5,808,495**

Note 17
GENERAL AND ADMINISTRATIVE EXPENSES
General and administrative expenses comprise the following:

For the years ended December 31	2018	2017
	$	$
Salaries and expenses	-	2,728,983
Professional fees	-	83,097
Office services	-	845,053
Management fees to CreateTO (a)	3,760,181	-
	3,760,181	**3,657,133**

a) Pursuant to a service agreement established between CreateTO and the Corporation, effective January 1, 2018, the Corporation engaged CreateTO to provide management services for a mutually agreed upon fee. The services include accounting, risk management, tax, finance, record keeping, financial statement preparation and audit support, legal services; treasury functions; regulatory compliance; information systems; executive management, corporate and other centralized services, and any other services mutually agreed between the two parties. This is an annual arrangement which will be automatically renewed on each anniversary date unless either party terminates it.

Note 18
AMORTIZATION

For the years ended December 31	2018	2017
	$	$
Investment properties	1,336,090	1,266,922
Other non-current assets	146,279	117,264
Equipment	33,476	41,976
	1,515,845	**1,426,162**
Leasing commission	6,168	6,168
	1,522,013	**1,432,330**

Note 19
IMPAIRMENT LOSS DUE TO THE FLOOD PROTECTION PROJECT

Pursuant to a license agreement entered between the Corporation and Toronto Waterfront Revitalization Corporation ('TWRC') dated July 1, 2018, the Corporation granted temporary use and access to certain properties ('handover properties') in accordance to a handover and handback schedule in the license agreement. TWRC will construct certain improvements and works in connection with the flood protection

project over the license period from July 1, 2018 to March 31, 2024. The improved properties will then be handed back to the Corporation.

In accordance with the terms in the license agreement, the Corporation has to deliver the handover properties to TWRC with vacant possession which necessitates terminating the leases and licenses on those properties. TWRC has the right to remove and demolish buildings, structures or improvements on the handover properties as may be required by its work plan.

As a result, the Corporation has written off the structures on the handover properties, including buildings, dockwall improvements, paving, HVAC and fencing that are demolished due to the flood protection project. As at December 31, 2018, the Corporation has recognized a loss on impairment of $432,233 on the properties handed over to TWRC (2017 – Nil), being costs less accumulated amortization on the demolished structures as follows:

	$
Impairment loss on investment properties for buildings, structures and paving	417,136
Impairment loss on other non-current assets for fencing	15,097
	432,233

Note 20
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 21
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) 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 amount of the asset retirement obligation has been determined to not be reliably measurable given the uncertainty of when or how remediation will take place and the total costs that will be incurred, and accordingly has not been recognized for accounting purposes.

c) Pursuant to a consulting agreement entered by the Corporation with BTI on January 1, 2014 in connection with the sale of 260 8th 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 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, 2018, BTI reported cumulative expenses of $246,576 (2017 - $195,861) on the remaining parcel. This expense is not recorded as a payable of the Corporation until a sale is made.

Note 22
EMPLOYEE BENEFITS

Post-employment benefits plan

As a result of the City-wide real estate initiative, effective January 1, 2018, a majority of the Corporation's employees became employees of CreateTO. The Corporation's current service contributions to the Ontario Municipal Employees' Retirement Fund ("OMERS") in 2018, which were charged against the restructuring provision totalled $80,145.

In 2017, all of the Corporation's permanent employees participated in a pension plan through OMERS. The Corporation made contributions to OMERS, which is a multi-employer pension plan, on behalf 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 Corporation does not recognize any share of the OMERS pension surplus or deficit. The Corporation's service contributions to the OMERS pension plan for the year ended December 31, 2017, which were expensed, totalled $272,156 and were included in salaries and employee benefits expense in the consolidated statements 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. As a result of the City-wide real estate initiative, effective January 1, 2018, the Corporation no longer has its own key management personnel and employees but is served by CreateTO (Note17(a)). In 2017, the Corporation's key management personnel include the President and Chief Executive Officer, Chief Financial Officer, General

Counsel and Corporate Secretary and directors. The compensation paid or payable to key management for employee services is shown below:

For the year ended December 31	**2017**
	$
Salaries and other short-term employee benefits	813,964
Salaries and other compensation relating to Corporate restructure	993,092
	1,807,056

In 2017, $25,992 was allocated to Toronto Global and $ 13,108 to ITI as part of shared services.

Note 23
FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Corporation's investment and operating activities expose it to a range of financial risks. These risks include credit 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.

- 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. The City of Toronto loan payable is not subject to interest rate fluctuation as the interest rate is fixed for the entire term of the loan.

- Liquidity risk

  Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has $18,940,051 of current liabilities, including amounts payable and accrued liabilities, dividend payable and current portion of City of Toronto loan, 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. Management believes that the liquidity risk of the Corporation is low.

Note 24
CAPITAL MANAGEMENT

The Corporation's capital is comprised of a loan from the City and shareholder's equity. The following table summarizes the carrying value of the Corporation's capital as at December 31, 2018 and 2017.

	2018	2017
	$	$
Shareholder's equity	387,563,001	383,255,452
City of Toronto loan	7,500,000	-
	395,063,001	**383,255,452**

The Corporation manages its capital by taking into account its long-term business objectives and its mandate of generating revenue for the City and maximizing the value and economic development potential of properties under its management. 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 purpose.

As at December 31, 2018, the Corporation has met its objective of having sufficient liquid resources and financing facilities to meet its current obligations.

Note 25
SUBSEQUENT EVENTS

In February 2019, the Corporation declared a dividend of $4,218,511 for 2018.

Note 26
APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on May 13, 2019.