Build Toronto Inc.

Consolidated Financial Statements

December 31, 2018

Independent auditor's report

To the Shareholder of Build Toronto Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. 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 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.

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

Build Toronto Inc.
Consolidated Statements of Financial Position

(Canadian $)	Notes	December 31, 2018	December 31, 2017
		$	$
ASSETS			
Current assets			
Real estate inventory	5	**111,881,154**	123,682,575
Pre-acquisition costs	6	**4,423,268**	2,994,894
Due from related parties	7	**6,396,669**	3,548,829
Amounts receivable	8	**1,685,880**	1,993,110
Deferred costs	9	**1,542,654**	997,860
Prepaid expenses		**146,021**	288,544
Loans receivable	10	**919,843**	21,567,993
Cash and cash equivalents	11	**81,020,954**	70,617,202
Restricted cash	12	**364,209**	3,808
Current assets		**208,380,652**	225,694,815
Non-current assets			
Investment property	13	**15,528,000**	14,906,000
Investment in equity accounted investments	14	**3,542,569**	3,867,344
Investment in joint venture	15	**33,278,663**	22,172,372
Property, equipment and intangible assets	16	**-**	381,303
Amounts receivable	8	**404,958**	2,980,430
Loans receivable	10	**33,124,011**	30,997,310
Non-current assets		**85,878,201**	75,304,759
Total assets		**294,258,853**	300,999,574
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Amounts payable and other liabilities	17	**4,372,811**	5,929,002
Environmental provision	18	**7,521,585**	8,298,169
Debt	19	**13,226,333**	13,198,879
Current liabilities		**25,120,729**	27,426,050
Non-current liabilities			
Amounts payable and other liabilities	17	**1,086,075**	1,172,755
Debt	19	**29,364,750**	30,241,280
Non-current liabilities		**30,450,825**	31,414,035
Total liabilities		**55,571,554**	58,840,085
Shareholder's equity	20	**238,687,299**	242,159,489
Total liabilities and shareholder's equity		**294,258,853**	300,999,574
Commitments and contingencies	35		

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

Build Toronto Inc.

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2018 and 2017

(Canadian $)	Notes	2018	2017
		$	$
Development income			
Development revenue	21	**28,922,458**	57,561,660
Cost of sales	22	**(13,672,111)**	(24,749,032)
Net development income		**15,250,347**	32,812,628
Rental income			
Rental revenue	23	**3,647,526**	2,079,344
Rental expenses	24	**(1,949,835)**	(1,362,404)
Net rental income		**1,697,691**	716,940
Net income before undernoted		**16,948,038**	33,529,568
Other income and (expenses)			
Project management fees	25	**583,672**	723,235
Interest income	26	**2,929,254**	2,373,593
Other income	27	**826,307**	131,417
Income from equity accounted investments	28	**11,613,372**	274,006
Fair value gains on investment property	13	**622,000**	286,000
General and administrative expenses	29	**(7,634,306)**	(7,670,886)
Project investigative costs	30	**(24,184)**	(346,589)
Amortization and depreciation	31	**(56,931)**	(164,547)
Interest expense	32	**(1,523,412)**	(1,130,955)
Total other income and (expenses)		**7,335,772**	(5,524,726)
Net income and comprehensive income		**24,283,810**	28,004,842

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

Build Toronto Inc.

Consolidated Statements of Shareholder's Equity

Years ended December 31, 2018 and 2017

(Canadian $)	Notes	Common shares	Contributed surplus	Retained earnings	Total Shareholder's equity
		$	$	$	$
Balance - January 1, 2017		1	227,137,155	11,180,883	238,318,039
Net income for the year		-		28,004,842	28,004,842
Transfer of properties from the shareholder	5a, 34a	-	5,621,034	-	5,621,034
Transfer of property to the shareholder	5b, 34a	-	(4,784,426)	-	(4,784,426)
Dividend paid	20b	-	-	(25,000,000)	(25,000,000)
Balance - December 31, 2017		1	227,973,763	14,185,725	242,159,489
Net income for the year		**-**	**-**	**24,283,810**	**24,283,810**
Transfer of promissory note to the shareholder	10c, 35c	**-**	**(2,756,000)**	**-**	**(2,756,000)**
Dividend paid	20b	**-**	**-**	**(25,000,000)**	**(25,000,000)**
Balance - December 31, 2018		**1**	**225,217,763**	**13,469,535**	**238,687,299**

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

Build Toronto Inc.

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Canadian $)	Notes	**2018**	2017
Cash provided by (used in)		**$**	$
OPERATING ACTIVITIES			
Net income		**24,283,810**	28,004,842
Items not involving cash and other adjustments:			
Straight-line rent	9	**(68,646)**	(251,777)
Deferred lease inducement amortization		**41,120**	31,401
Net income from sale of equity accounted investments	27	**(493,317)**	-
Income from equity accounted investments	28	**(11,613,372)**	(274,006)
Project investigative costs	30	**24,184**	346,589
Fair value gains on investment property	13	**(622,000)**	(286,000)
Accretion of environmental provision	18c	**-**	78,568
Non-cash interest income	26	**(29,014)**	(29,014)
Amortization and depreciation	31	**56,931**	164,547
Real estate inventory			
Additions	5c	**(2,644,918)**	(16,064,802)
Cost of sales	22	**13,672,111**	24,749,032
Pre-acquisition costs	6a	**(1,454,914)**	(702,763)
Leasing costs and incentives	9	**(571,740)**	(965,825)
Changes in other working capital items	33	**13,119,500**	(2,703,575)
Total operating activities		**33,699,735**	32,097,217
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets	16	**(6,820)**	(124,118)
Sale of tangible and intangible assets	16	**385,664**	-
Repayment of loan receivable	10a, 14	**1,567,861**	2,317,647
Sale of shares in equity accounted investments	14, 27	**605,173**	-
Total investing activities		**2,551,878**	2,193,529
FINANCING ACTIVITIES			
Repayment of loan payable	19a	**(847,861)**	(2,317,647)
Draw on construction loan	19b	**-**	12,306,490
Payment of dividend	20	**(25,000,000)**	(25,000,000)
Total financing activities		**(25,847,861)**	(15,011,157)
Change in cash and cash equivalents		**10,403,752**	19,279,589
Cash and cash equivalents, beginning of year		**70,617,202**	51,337,613
Cash and cash equivalents, end of year	11	**81,020,954**	70,617,202

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

1. ORGANIZATION

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

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2018. To mitigate risk, the Company's principal operating company is Build Toronto Inc. and the portfolio of properties and investments in associates and joint arrangements are held by 100% wholly owned subsidiaries.

The wholly owned subsidiaries and their activities are shown in the table below:

Name of the Holding Company Subsidiaries	Development of real property	Joint arrangement for real estate development	Investment in film studios
Build Toronto Holdings One Inc. (BTHOI)			√
Build Toronto Holdings (Harbour) Inc. (BTHHI)		√	
Build Toronto Holdings (Ordnance) Inc.		√	
Build Toronto Holdings (York Mills) Inc.	√		
Build Toronto Holdings (Victoria Park) Inc.	√		
Build Toronto Holdings (Tippett) Inc.	√		
Build Toronto Holdings (Dunelm) Inc.	√		
Build Toronto Holdings (Billy Bishop) Inc.	√		
Build Toronto Holdings (Richmond) Inc.	√		
Build Toronto Holdings (Bicknell) Inc.	√		
Build Toronto Holdings (Westwood) Inc.	√		

2. SIGNIFICANT ACCOUNTING POLICIES

a) 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").

b) **Basis of presentation**

The Company has been identified as an other government organization 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 Company's functional currency. All values are rounded to the nearest dollar, unless otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties as explained in the accounting policies below. The accounting policies set out below have been applied consistently in all material respects. Changes in standards effective for the current year as well as for future accounting periods are described in Note 3 New Accounting Standards Adopted in 2018 and Note 4 Future Accounting Policy Changes.

c) **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Build Toronto Inc. and entities controlled by the Company (its subsidiaries). Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intercompany balances resulting from intercompany transactions are eliminated.

d) **Real estate assets**

I. **Real estate inventory**

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

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

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

Cost of sales of real estate inventory is based on actual costs incurred or to be incurred. Selling costs are expensed as incurred.

II. **Investment property**

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

Investment property is initially recorded at cost. Cost of investment property includes the acquisition cost of the property, including related transaction costs in connection with an asset acquisition, assessment of environmental conditions, site surveys, appraisals, direct development and construction costs and property insurance and taxes during development. For property transferred by the City, the fair value of the property is deemed to be its cost at the date the transfer is recorded. Subsequent expenditures are capitalized to the investment property's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Subsequent to initial recognition, investment property is carried at fair value, determined based on available market evidence, at the balance sheet date. Related fair value gains and losses are recorded in net income in the year in which they arise.

The fair value of investment property is estimated internally by the Company at the end of each reporting period. In addition to these internal property valuations, the Company will review the fair value of material investment property using an independent third party appraiser on a rolling basis over a period of three years or less, as determined by management. The internal property valuations prepared by the Company are based primarily on a discounted cash flow (DCF) model where the property generates rental income, which estimates fair value based on the present value of the property's estimated future cash flows. Estimated fair values are determined on a property by property basis. The Company's current investment property is film studio land and land improvements. The fair value of the film studio land and land improvements is estimated using DCF over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation.

III. **Transfers of property between inventory and investment property**

A property is transferred from inventory to investment property only when the Company has a lease with a tenant and the lease has commenced. The investment property is measured at its fair value on transfer and any gain or loss is recorded consistent with sales of inventory.

A property is transferred from investment property to inventory only when the Company determines there has been a change in use supported by objective evidence of a change in intention to now develop the property for sale in the ordinary course of business and development activities contributing to the sale have commenced or are underway. The investment property is measured at its fair value before transfer, and such fair value becomes the deemed cost of the inventory after transfer.

IV. **Pre-acquisition costs**

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

Pre-acquisition costs capitalized to-date related to a specific property are transferred to real estate inventory at the date of acquisition or the date the transfer is recorded.

e) **Equity accounted investments**

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

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

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

f) **Investment in joint arrangements**

A joint arrangement is a contractual arrangement between the Company and other parties to undertake economic activities that require the unanimous consent of the parties sharing control in strategic financial and operating policy decisions relating to the activities of the joint arrangement. Joint arrangements that involve the establishment of a separate vehicle in which each party has an interest are considered to be joint ventures and are accounted for using the equity method as outlined above.

For joint arrangements where the Company undertakes its activities through a direct interest in a joint arrangement's assets, rather than through the establishment of a separate entity, the arrangement is considered to be a joint operation and the Company's proportionate share of the joint operation's assets, liabilities, revenues, expenses and cash flows are recognized in the consolidated financial statements and classified according to their natures.

g) **Property, equipment and intangible assets**

Property, equipment and intangible assets include leasehold improvements, furniture and fixtures, office equipment and software licences, and computer equipment. Property, equipment and intangible assets are stated at cost less accumulated depreciation and amortization and accumulated impairment losses.

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

Type of assets	Depreciation and amortization policy
Leasehold improvements	straight-line over the term of the lease
Furniture and fixtures, office equipment and software licence	3 to 5 years straight-line
Computer equipment	3 years straight-line

Residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end. Costs include expenditures that are directly attributable to the acquisition, and expenditures for replacing part of the property and equipment when that cost is incurred if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated statements of net income and comprehensive income during the period in which they are incurred.

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The amount of the loss is recognized in net income or loss. The carrying amount is reduced by the impairment loss directly. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

h) **Revenue recognition**

Effective January 1, 2018, the Company has adopted IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), on a modified retrospective basis with no restatement of comparatives described in 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.

I. Rental revenue

The Company 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 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 deferred costs, 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.

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

II. Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers primarily includes sales of developed sites and land to third parties, recoveries of operating expenses and recoveries of capital expenditures from tenants in accordance with their leases ("recoveries revenue").

The company recognizes revenue when it transfers control over a property, right or service to a customer. The Company expenses all commissions related to the sales of developed sites and land paid to an intermediary at the time of the transfer of the control and capitalizes all commissions related to rental activities as a cost to obtain a contract when they are expected to be recovered. The latter type of commissions are amortized consistently with the pattern of recognition for the related revenue.

Revenue relating to sales of developed sites and land is recognized when control over the property has been transferred to the customer - typically when the ownership of the property is registered in the customer's name and the customer can begin construction on the property. Until this criterion is met, any proceeds received are accounted for as customer deposits. Revenue is measured based on the transaction price agreed to under the contract and is typically recognized upon the receipt of it.

Revenue relating to sales of condominiums is recognized when control of the property has been transferred to the customer - typically when the customer occupies the property. Until this criterion is met, any proceeds received are accounted for as customer deposits. Revenue is measured based on the transaction price agreed to under the contract.

Other income includes guarantee fee, management fees and interest income. Interest income is recognized as earned. Guarantee fee and management fees are recorded as the services are provided.

i) **Dividends**

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

j) **Financial instruments - Classification**

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

		December 31, 2018	December 31, 2017	
		Classification and measurement	Classification and measurement	
	Notes	**IFRS 9**	IAS 39	
Financial assets				
Due from related parties	7	**Amortized cost**	Loans and receivables	Amortized cost
Amounts receivable	8	**Amortized cost**	Loans and receivables	Amortized cost
Loans receivable	10	**Amortized cost**	Loans and receivables	Amortized cost
Cash and cash equivalents	11	**Fair value through profit and loss**	Loans and receivables	Fair value
Restricted cash	12	**Fair value through profit and loss**	Loans and receivables	Fair value
Financial liabilities				
Amounts payable and other liabilities	17	**Amortized cost**	Financial liabilities	Amortized cost
Debt	19	**Amortized cost**	Financial liabilities	Amortized cost

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

I. **Financial assets**

The Company classifies its financial assets that give rise to specified payments of principal and interest as amortized cost, unless the company 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).

Loans receivable are recognized initially at fair value, plus any directly attributable transaction costs. The Company classifies all loans receivable that give rise to specified payments of principal and interest as amortized cost. All other loans receivable are classified as FVTPL. For those loans receivable classified as amortized cost, subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method, less any provision for impairment, if applicable. A provision for impairment on the loans receivable is established based on the general approach Expected Credit Loss (ECL) model. Under the general approach ECL model, the Company estimates possible default scenarios for the next 12 months on its loans receivable. The Company established a provision matrix that considers various factors including the borrower's credit risk, term to maturity, status of the underlying project and market risk. The results of the general approach ECL model are used 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 comprehensive income (loss). If a significant increase in credit risk occurs on a loan receivable, an estimate of default is considered over the entire remaining life of the assets. In circumstances when the Company acquires a loan receivable that is credit impaired at the date of initial recognition the credit adjusted approach ECL model will be applied. The credit adjusted approach ECL model results in expected credit losses calculated considering an estimate of default over the life of the asset.

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 ECL model. Under the ECL model, the Company 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 Company 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 Company transfers substantially all risks and rewards of ownership.

II. **Financial liabilities**

The Company 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 Company's financial liabilities that are classified as FVTPL are initially recognized at fair value and are subsequently remeasured 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 Company classified its financial instruments in the following categories:

I. **Loans and receivables**

The Company's loans and receivables comprise loans receivable, due from related parties, amounts receivable, cash and cash equivalents and restricted cash, and are included in current and non-current assets depending on their maturities. Loans and receivables are measured at amortized cost.

II. **Financial liabilities**

Financial liabilities are recorded at amortized cost and include amounts payable and other liabilities and debt. 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 Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan or receivable is impaired, the Company continues unwinding the discount at the original effective interest rate of the instrument as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

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

k) **Fair value of financial instruments**

The Company 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 Company 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.

l) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. The asset is cash or a cash equivalent unless the asset is restricted.

m) **Restricted cash**

Restricted cash is cash or a cash equivalent that is strictly held for a specific purpose determined by the funder and is expected to be used to settle a liability within twelve months after the reporting period.

n) **Government grants and government assistance**

From time to time the Company applies for government assistance programs where these are offered to offset the costs of remediation. The Company offsets the capitalized cost(s) where the grant is related to an asset or if the grant is related to income it is deducted from the related expense. The grant is not recognized until all conditions attached to receiving the grant have been met and there is reasonable assurance that the grant will be received.

o) **Deferred costs**

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

p) **Environmental provision**

The cost of the Company's obligation to remediate land is recognised when the asset is transferred. A provision is made for environmental remediation costs based on the net present value of estimated future costs with, where appropriate, probability weighting for the different remediation or closure outcomes which could realistically arise. The ultimate cost of remediation is uncertain and Management uses its judgment and experience to provide for these costs.

q) **Use of Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

I. **Fair value of real estate investment property at transfer date and period end**

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

II. **Fair value of real estate inventory at the date a transfer is recorded**

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

III. **Net realizable value of real estate inventory at period end**

Commercial development properties and land held-for-sale in the ordinary course of business are stated at the lower of cost and net realizable value. In calculating net realizable value, management must estimate the selling price of the assets based on prevailing market prices at the date of the consolidated statements of financial position and discounted for the time value of money, if material, less estimated costs of completion and estimated selling costs.

IV. **Impairment of equity accounted investments**

At each reporting date, management is required to assess whether its equity accounted investments are impaired. The criteria used to determine whether there is objective evidence of impairment include: (a) significant financial difficulty of the investee; (b) the probability the investee will enter bankruptcy or other financial reorganization; and (c) the underlying financial position and financial performance of the investee.

V. **Impairment of financial assets**

IFRS 9, Financial Instruments, requires management to use judgment in determining whether the Company's financial assets require a provision for impairment. The Company's financial assets are subject to the ECL model whereby the Company'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.

VI. **Fair value of financial instruments**

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

The Company's financial instruments, consisting of due from related parties, amounts receivable, certain short-term fixed-rate loans receivable, cash and cash equivalents, restricted cash, amounts payable and other liabilities, and variable-rate debt, have a carrying value which approximates fair value due to their short-term nature.

The estimated fair value of the long-term loan receivable and the long-term fixed-rate debt was $24,874,774 at December 31, 2018, determined by discounting the carrying value of the instrument using an assessment of the market interest rate ranging from 3.76% to 5.04% for the loan receivable and debt. The market interest rates were determined using the effective interest rate method adjusted for the Company's assessment of credit risk. In determining the adjustment for credit risk, the Company considered market conditions, the value of the properties that the mortgages are secured by, where applicable, and other indicators of the borrower's creditworthiness.

The estimated fair value of the long-term loan receivable and long-term fixed-rate debt is identical as they are structured as a flow-through instrument.

VII. **Useful lives and impairment of property, equipment and intangible assets**

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

VIII. **Carrying value of the environmental provision**

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

r) **Critical Judgements**

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

I. **Determination of initial classification of property as inventory or investment property**

In assessing the initial classification of an acquired property, the Company prepares a strengths-weaknesses-opportunities-threats analysis using certain assumptions and inputs to develop a preliminary business plan in order to determine the intended use of the property. When the Company has the intention to hold an acquired property specifically to earn rental income and/or capital appreciation, the property is classified as an investment property; if the intention is to develop and sell the property in the ordinary course of business, it is classified as inventory. Significant judgment is applied in deriving the assumptions and in applying the inputs, and different assumptions could result in the change in the classification of the acquired property.

II. **Determination of transfer of property to/from inventory and investment property**

The Company assesses internally, at each reporting date, whether there is any objective evidence indicating significant changes in the assumptions and inputs used in the preliminary business plan in determining the initial classification of the acquired property. Where there are many differences affecting the original intentions for the use of the property, the business plan is revised to reflect those changes and the acquired property will be reclassified, if necessary, to align with the revised business plan.

III. **Assessment of classification of associates**

The Company's accounting policies relating to the equity accounted investments are described in Note 2(e). In assessing that the Company has significant influence over its associates, management considers the rights and obligations of the various investors and whether the Company has the power to participate in the financial and operating policy decisions of the investees, but not control or joint control over those policies.

IV. **Assessment of classification of joint arrangements**

The Company's accounting policies relating to the joint arrangements are described in Note 2(f). In applying this policy, judgment is applied in determining whether the Company has control or joint control over another entity. Once joint control is established it is then assessed whether a joint arrangement should be classified as either a joint operation or a joint venture. As part of this assessment, the Company considers the contractual rights and obligations, voting rights, board representation and the legal structure of the joint arrangement, along with other facts and circumstances present in the contractual agreement.

v. **Timing of recognition of properties transferred from related parties**

Critical judgments are made by management in determining when to recognize properties transferred from related parties. Properties transferred from the City and other City controlled entities are recognized at the point at which it is considered probable that the future economic benefits associated with the property will flow to the Company, which is considered to be the point when the City commits to the transfer to the Company and the Company accepts the transfer. At this point, transfer of legal title from the City or other City controlled entity to the Company is considered to be an administrative process and virtually certain to occur.

vi. **Determining approach and frequency of external appraisals for investment property**

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

3. NEW ACCOUNTING STANDARDS ADOPTED IN 2018

a) **IAS 40, Investment Property (IAS 40)**

Amendments to IAS 40 have been made to provide clarification on when a company 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 Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

b) **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 to the consolidated financial statements.

c) **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 Company evaluated the credit risk of its loans receivable and amounts receivable using an ECL model taking into consideration of the underlying security available to the Company and concluded that the adoption of IFRS 9 amendments did not result in a material impact to the consolidated financial statements. There was no change to the measurement of any financial instruments on the adoption of IFRS 9.

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

Effective January 1, 2018, the Company has applied IFRS 15. IFRS 15 provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS revenue recognition model requires management to exercise judgment and make estimates that affect revenue recognition.

The Company has adopted IFRS 15 on a modified retrospective basis. In applying IFRS 15, the Company 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 23 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".

4. FUTURE ACCOUNTING POLICY CHANGES

a) **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 Company has not early adopted IFRS 16 but is currently evaluating the impact of IFRS 16 on its consolidated financial statements. The Company's preliminary assessment has identified no material impact of the implementation of IFRS 16.

5. REAL ESTATE INVENTORY

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

	Notes	**2018**	2017
		$	$
Balance - Beginning of year		**123,682,575**	141,185,530
Transfer from pre-acquisition costs	6	**2,356**	181,487
Acquisitions - transfers from the shareholder (a)	34a	**-**	5,621,034
Transfer to the shareholder (b)	34a	**-**	(12,559,745)
Development costs (c)		**2,574,674**	17,021,068
Costs recovered from the City (c)		**-**	(1,153,683)
Adjustment to environmental provision	18	**-**	(140,430)
Costs recorded in statement of income (d)		**(14,378,451)**	(26,472,686)
Balance - End of year		**111,881,154**	123,682,575

a) There was no transfer of properties from the shareholder during the year ended December 31, 2018 (2017 - two properties with fair value of $5,621,034 were transferred from the shareholder to the Company). In 2017, the value of the transferred properties was based on third-party property-specified appraisals and adjusted for the estimated costs to sell the asset, and the latter represented 19.2% of the appraised value. The inputs used to calculate the fair value contain unobservable inputs and thus would be considered to be Level 3 inputs. Market sales data for similar properties were used where possible, and the Company's management exercised judgement to estimate the selling costs. Management believe that there were no environmental issues associated with these transferred properties, and do not anticipate future liabilities for remediation.

b) There was no properties returned to the shareholder during the year ended December 31, 2018. In 2017, two properties with total value of $12,559,745 were returned to the City. The returned properties of $12,559,745, net of the reversal of environmental provisions of $7,775,319 (Note 18) were recorded as a corresponding decreases in contributed surplus of $4,784,426.

c) The development costs of $2,574,674 (2017 - $17,021,068, net of recoverable costs of $1,153,683 from the City), together with remediation costs of $70,244 (2017 - $197,417) utilized against the environmental provision, are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	Notes	**2018**	2017
		$	$
Development costs		**2,574,674**	17,021,068
Costs recovered from the City		**-**	(1,153,683)
Utilization of environmental provision	18	**70,244**	197,417
		2,644,918	16,064,802

d) The Company recorded cost of sales of $14,378,451 (2017 - $26,145,315) during the year ended December 31, 2018, comprised of the costs of the inventory property sold in the year and minor cost adjustments relating to other properties that were sold in prior years. In 2017, in addition to the cost of sales, project investigative costs of $327,371, attributable to leasing costs not expected to benefit future periods were written off. Breakdown of the costs recorded in the consolidated statements of income and comprehensive income is as follows:

	Notes	2018	2017
		$	$
Real estate inventory cost of sales	22	**(14,378,451)**	(26,145,315)
Project investigative costs	30	-	(327,371)
		(14,378,451)	(26,472,686)

6. PRE-ACQUISITION COSTS

	Notes	2018	2017
		$	$
Balance - Beginning of year		**2,994,894**	2,492,836
Additions (a)		**1,557,854**	1,359,820
Transfer to real estate inventory	5	**(2,356)**	(181,487)
Costs recovered from the City (a)		**(102,940)**	(657,057)
Costs recorded in statement of income (b)		**(24,184)**	(19,218)
Balance - End of year		**4,423,268**	2,994,894

a) During the year ended December 31, 2018, the Company capitalized $1,557,854 (2017 - $1,359,820) of investigative and development costs related to properties that have not yet been acquired by the Company.

The additions, reduced by the costs recovered from the City of $102,940 (2017 - $657,057), are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	2018	2017
	$	$
Additions	**1,557,854**	1,359,820
Costs recovered from the City	**(102,940)**	(657,057)
	1,454,914	702,763

b) During the year ended December 31, 2018, the Company wrote off aborted project costs of $24,184 (2017 - $19,218) to the consolidated statement of income and comprehensive income.

	Notes	2018	2017
		$	$
Project investigative costs	30	**(24,184)**	(19,218)
		(24,184)	(19,218)

7. DUE FROM RELATED PARTIES

	Notes	2018	2017
		$	$
Due from City	34a	**2,844,817**	3,352,968
Due from Toronto Transit Commission (TTC)	34b	**1,636,575**	-
Due from CreateTO	34c	**1,664,311**	-
Due from Toronto Port Lands Company (TPLC)	34d	**250,966**	195,861
Due from related parties		**6,396,669**	3,548,829

8. AMOUNTS RECEIVABLE

	Notes	2018	2017
		$	$
Recoverable financing costs and loan interest		**139,972**	48,973
Interest differential loan (a)		**404,958**	375,944
Deferred rent (b)		**-**	919,350
Total due from PT Studios Inc. (PTSI)	34f	**544,930**	1,344,267
Trade receivables		**77,510**	88,564
Purchase price adjustment (c)		**-**	1,806,010
HST refund		**370,948**	717,705
Interest receivable (d)		**123,151**	75,760
Retainer and other recoverable amounts		**938,401**	904,583
Other		**35,898**	36,651
Total amounts receivable		**2,090,838**	4,973,540
Less: Current portion		**(1,685,880)**	(1,993,110)
Non-current amounts receivable		**404,958**	2,980,430

a) The balance of $404,958 (2017 - $375,944) represents the present value of deferred loan interest due on March 18, 2034.

b) Pursuant to the deferred rent clause in the ground lease between BTHOI (as landlord) and PTSI (as tenant), PTSI was given a deferral of 50% of basic rent payable on an interest free basis for a period of five years, starting June 22, 2009. Commencing on June 22, 2014, deferred rent is being repaid based on blended monthly payments of interest and principal over a ten-year period at a rate of 5.6%. The Company received the remaining balance in April 2018.

c) An outstanding balance of $1,806,010 in 2017, related to additional profit participation from the sale of a property that took place in 2010, was received in June 2018. The cash collected was lower than expected at $1,162,080 and the difference of $643,930, due to a lower above-grade gross floor area, was recorded in development revenue in the consolidated statements of net income and comprehensive income.

d) The interest receivable of $123,151 (2017 - $75,760) relates to interest receivable on the GIC, short-term deposit and premium interest account investment.

9. DEFERRED COSTS

	Cost	Accumulated amortization and straight-line rent adjustment	2018
	$	$	$
Leasing costs (a), (b), (c)	718,625	(62,629)	655,996
Tenant allowance (a), (b) (d)	818,940	(59,112)	759,828
Subtotal	1,537,565	(121,741)	1,415,824
Free rent and straight-line rent adjustment (b), (d)	64,411	62,419	126,830
Total	1,601,976	(59,322)	1,542,654

	Cost	Accumulated amortization and straight-line rent adjustment	2017
	$	$	$
Leasing costs (a), (b), (c)	533,255	(8,157)	525,098
Tenant allowance (a), (b), (d)	432,570	(1,654)	430,916
Subtotal	965,825	(9,811)	956,014
Free rent and straight-line rent adjustment (b), (d)	40,870	976	41,846
Total	1,006,695	(8,835)	997,860

Reconciliation of the net deferred costs is set out below:

	Notes	2018	2017
		$	$
Balance - Beginning of year		997,860	-
Additions - leasing costs and incentives (a)		571,740	965,825
Additions - free rent		23,541	40,870
Amortization of leasing costs (c)	31	(54,472)	(8,157)
Amortization of tenant allowance (d)		(57,458)	(1,654)
Free rent adjustment (d)		(7,203)	-
Straight-line rent adjustment (d)		68,646	976
Total - End of year		1,542,654	997,860

a) The Company constructed a retail shopping centre which became operational on October 1, 2017. During the year ended December 31, 2018, the Company incurred leasing costs and tenant allowance payments totalling $571,740 (2017 - $965,825).

b) The leasing costs, tenant allowance and free rent incurred on the leases are amortized over the term of the tenants' leases. However, as the property is expected to be sold within the next twelve months (Note 38), all the deferred costs have been classified as current assets even though all the leases have terms that range from ten to fifteen years.
c) Leasing costs amortization of $54,472 (2017 - $8,157) resulted in a corresponding increase in the amortization and depreciation expense (Note 31).
d) Amortization of tenant allowance, free rent adjustment and straight-line rent adjustment of $57,458 (2017 - $1,654), $7,203 (2017 - $nil) and $(68,646) (2017 - $(976)) respectively resulted in corresponding net increase of $3,985 to the rental revenue in 2018 (2017 - decrease of $678).

10. LOANS RECEIVABLE

	Notes	**2018**	2017
		$	$
Loan receivable - PTSI (a)	19a, 34	**30,284,593**	31,133,668
Vendor-take-back mortgage (b)		**3,003,231**	17,919,605
Promissory notes (c)		**756,030**	3,512,030
Total		**34,043,854**	52,565,303
Less: Current portion		**(919,843)**	(21,567,993)
Non-current loan receivable		**33,124,011**	30,997,310

a) In 2011, the Company assisted TWSI in restructuring debt by obtaining a new long-term facility with a government agency (Note 19(a)). The new facility was interest-only for the first three years of the term (matured on December 23, 2014) and was available to a maximum of $34,500,000; the Company drew $33,406,788 and advanced $33,403,778 to PTSI. On March 10, 2017, the agreement was renewed and PTSI repaid $1,700,000 and the balance was adjusted by $3,010 to match the amount drawn by the Company. The new facility for $31,706,788 was then converted to a 10-year conventional with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and maturing on March 15, 2027.

During the year ended December 31, 2018, PTSI made total principal repayments of $847,861 (2017 - $2,317,647). The balance includes accrued interest of $43,313 (2017 - $44,528).

The loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.

b) The VTB mortgage, issued in connection with a property sale transaction in September 2016 with proceeds of $26,000,968, was fully repaid during the year. The repayment date was extended from March 8, 2018 to August 15, 2018. The VTB mortgage had an interest rate of 4.75% per annum, payable in arrears, until March 8, 2018, when it was increased to 5.5% per annum, payable in arrears, with the exercising of the extension option. The accrued interest earned on the balance was $1,606,614 and was included in the total repayment of $18,473,318.

In December 2018, the Company sold a property and received a VTB mortgage of $3,000,000 (2017 - $nil). The VTB mortgage has an interest rate of 3.25% per annum, compounded semi-annually not in advance, until the earlier of the final closing of the dwelling units within the first phase of the development and December 20, 2023. The balance includes accrued interest earned of $3,231, payable on maturity.

c) The promissory notes were issued in connection with the sale discussed in (b) above. These notes are non-interest bearing until the maturity date which cannot be determined accurately at this stage. The notes have an interest rate of prime plus 5% per annum, payable in arrears, from and after their maturity dates, and are for securing the obligations of the purchaser to construct the shell portion of the building for a community recreational facility and the contracted space for affordable housing.

During the year ended December 31, 2018, the Company assigned the promissory note of $2,756,000 to the future owner of the community recreational facility as the purchaser fulfilled its obligation and this was reflected in the contributed surplus.

11. CASH AND CASH EQUIVALENTS

	2018	2017
	$	$
GICs - various maturities within one year but redeemable after 30 days of issue without penalty	**301,000**	301,000
Short-term deposits	**-**	4,435,168
Premium interest account	**68,609,441**	60,719,484
Cash	**12,110,513**	5,161,550
Cash and cash equivalents	**81,020,954**	70,617,202

The Company has $1,488,955 (2017 - $2,005,411) in outstanding letters of credit issued by financial institution to securitize a tripartite development obligation to install infrastructure upgrades and remaining construction work at a shopping centre.

12. RESTRICTED CASH

	2018	2017
	$	$
Restricted cash	**364,209**	3,808

The balance represents a funded amount restricted for use for a project that the Company acts as an agent for the City.

13. INVESTMENT PROPERTY

	2018	2017
	$	$
Balance - Beginning of year	**14,906,000**	14,620,000
Net gain in fair value	**622,000**	286,000
Balance - End of year	**15,528,000**	14,906,000

The film studio land and land improvements are leased to PTSI under a 99-year lease. The film studio land is included in the security for the loan payable to a government agency (Note 19(a)).

Investment property measured at fair value in the consolidated statements of financial position is categorized by level according to the significance of the inputs used to calculate their fair values. The Company uses significant unobservable inputs to adjust the fair values of its investment property and accordingly the fair values are classified as Level 3 fair values. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 3 and either Level 1 or Level 2 fair value measurements for the year ended December 31, 2018.

The fair value of the film studio land and land improvements is estimated using discounted cash flows over a long term land lease (>90 years). Assumptions for inflation and discount rates are part of the calculation. Inflation is assumed to be at 2% for the first 40 years and 4% beyond 40 years. The discount rate used is 5.5% (2017 - 5.5%). If the discount rate were to increase by 25 basis points (bps), the value of investment property would decrease from $15,528,000 to $14,514,000. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from $15,528,000 to $16,667,000.

a) **Valuation processes**

Management is responsible for reviewing the fair value measurements included in the consolidated financial statements, including Level 3 fair values of the investment property. Management uses a valuations team that reviews the valuation for the investment property at each reporting period.

Periodically, the Company obtains an external valuation for the investment property. The external valuation utilized is prepared by independent professionally qualified valuators who hold a recognized relevant professional qualification and have recent experience in the location and category of the property. For a property subject to an independent valuation report, the valuations team verifies all major inputs to the valuation and reviews the results with the independent valuator.

In 2018, the discounted cash flow property valuation was calculated internally to arrive at the fair market value at December 31, 2018.

The valuation team reports directly to the Chief Financial Officer (CFO). Discussions of the valuation processes, key inputs and results are determined by the CFO and the valuation team at least annually.

Changes in Level 3 fair values are reviewed annually by the CFO, and with the valuation team.

14. INVESTMENT IN TORONTO WATERFRONT STUDIO INC. AND TORONTO WATERFRONT STUDIOS DEVELOPMENT INC.

On May 14, 2018, Bell Media Inc. exercised the option to increase its ownership in TWSI and Toronto Waterfront Studios Development Inc. (TWSDI) to 50.01% and 49.99% respectively, and to achieve that the Company sold 1,567 of its Class A common shares in TWSI and 14,192 of its common shares in TWSDI to one of their shareholders for resale to Bell Media. After the transaction, the Company's interests in TWSI and TWSDI, held through BTHOI, reduced to 18.57% and 18.58% respectively (Note 27).

The Company classified its interests in TWSI and TWSDI as investments in associates as it has significant influence but does not have control or joint control over their operations. The investments in associates are accounted for using the equity method.

		TWSI		TWSDI	
	Notes	**2018**	2017	**2018**	2017
		$	$	**$**	$
Balance - Beginning of year		**3,957,184**	3,449,099	**(89,840)**	(107,038)
Transfer of shareholder loan		**(29,041)**	(50,959)	**29,041**	50,959
Shareholder loan repayment		**(720,000)**	-	-	-
Sale of interest	27	**(129,645)**	-	**17,789**	-
Share of net income (loss)	28	**579,420**	559,044	**(72,339)**	(33,761)
Balance - End of year	34f	**3,657,918**	3,957,184	**(115,349)**	(89,840)

For the years ended December 31, 2018 and December 31, 2017, TWSI and TWSDI's financial positions are as follows:

	TWSI		TWSDI	
	2018	2017	**2018**	2017
	$	$	**$**	$
Current assets	**9,707,915**	15,236,105	**345,036**	465,168
Non-current assets	**46,623,135**	40,824,858	**6,260,953**	7,351,990
Current liabilities	**14,837,229**	16,137,158	**7,641,153**	8,923,802
Non-current liabilities	**30,079,167**	31,629,350	**558,170**	97,348
Revenue	**16,575,392**	14,152,482	**-**	-
Net income (loss) from continuing operations	**3,120,199**	2,795,220	**(389,342)**	(168,806)
Net income (loss) and total comprehensive income (loss)	**3,120,199**	2,795,220	**(389,342)**	(168,806)

The Company's share of income from TWSI and TWSDI for 2018 is $507,081 (2017 - $525,283).

The ground lease for the film studio land with PTSI is for a term of 99 years and was executed on August 25, 2005. On June 22, 2009, PTSI was granted a deferral of 50% of the basic rent for a term of five years ended in June 2014. Commencing on June 22, 2014, deferred rent is to be repaid based on blended monthly payments of interest and principal over a 120-month period at a rate of 5.6%. Annual rent adjustments start June 22, 2027 and every subsequent 20-year anniversary thereafter. No dividends can be paid from PTSI unless and until any and all amounts due to the landlord have been paid. Rent until the next annual rent adjustment date is $517,115 per annum.

On April 24, 2018, TWSI repaid advances of $720,000 (2017 - $nil), reducing the outstanding balance included in the investment in equity accounted investments to $1,890,940 (2017 - $2,610,940). The rate of interest and the repayment for this advance is subject to approval of the Board of Directors of TWSI.

From time to time, BTHOI receives cash funding calls from the operations of TWSI and TWSDI for the construction of film studios and office premises, which it is obligated to fund, at an amount equivalent to its equity ownership of the cash requirements. The Company's future commitments are determined through ongoing negotiations with the investees and investors.

15. JOINT ARRANGAEMENTS

a) Investment in joint venture

	Notes	2018	2017
		$	$
Balance - Beginning of year		**22,172,372**	22,423,649
Share of net gain(loss)	28	**11,106,291**	(251,277)
Balance - End of year		**33,278,663**	22,172,372

BTHHI has a 35% ownership of a general partnership (the Partnership) for the development of the property at 10 York Street.

The Company has classified its 35% interest in the Partnership as a joint venture. In doing so, the Company considered the terms and conditions of the partnership agreement and the purpose and design of the joint arrangement and accounts for its interest using the equity accounting method. The purpose of the joint venture is to develop and construct a condominium project on the site, and distribute the returns to the partners once these are sold.

			Ownership interest (%)	
Name	**Principal activity**	**Location**	**2018**	2017
120-130 Harbour Street Partnership	Inventory	Toronto, Ontario	**35**	35

For the years ended December 31, 2018 and December 31, 2017, the Partnership reported the following financial positions and results from operations:

	2018	2017
	$	$
Cash and cash equivalents	**998,200**	2,128,722
Other assets	**322,784,745**	227,096,427
Total liabilities	**228,572,946**	176,026,271
Income(loss) from continuing operations	**42,011,121**	(717,934)
Net income(loss) and total comprehensive income(loss)	**42,011,121**	(717,934)

Losses are allocated to the other partner of the Partnership until the first advance date of construction financing. Subsequent to the first advance date of construction financing, which occurred on July 3, 2015, losses are allocated in proportion to the aggregate capital contributions of the partners. Income is allocated first to the other partner of the Partnership to the extent of previously allocated losses prior to the first advance date of construction financing. As of December 31, 2017, the Partnership had incurred cumulative losses of $11,801,122 of which $11,214,549 had been allocated to the other partner. The current year's net income was first allocated to the partners to the extent of previously allocated losses, and the remainder has been allocated 32% to the Company and 68% to the other partner based upon the terms of the partnership agreement.

b) Investment in joint operation

The Company had classified its 50% interest in the property at Ordnance and Strachan as a joint operation. In doing so, the Company considered the terms and conditions of the co-ownership agreements and the purpose and design of the joint arrangement. The purpose of the arrangement was to co-develop the residential site with each group having direct rights to its share of assets and direct obligations for its share of liabilities. As a result the Company recorded its share of the asset as inventory along with its share of liabilities and revenues and expenses in its consolidated financial statements.

On October 29, 2015, the joint operation disposed of the co-owned inventory properties, which were previously accounted for by recognizing the Company's share of the assets, liabilities, revenues and expenses on a line-by-line basis. After the disposition, the joint operation continues to own a parcel of land that must be re-conveyed in "Base Park" condition to the City at no cost, and accordingly the land is valued at nil. The financial obligations for the parkland improvements have been transferred to the purchaser (Note 35(c)).

			Ownership interest (%)	
Name	**Principal activity**	**Location**	**2018**	2017
Ordnance/ Strachan	Inventory	Toronto, Ontario	**50**	50

Pursuant to the requirements of the original transfer agreement with the City, the Company is required to deliver park lands of a certain condition and to ensure compliance with Section 37 of the Planning Act (Section 37) requirements associated with the site. With the sale of the final phase of the site on October 29, 2015, the financial obligations related to the park and the Section 37 requirements were assumed by the purchasers; however, the Company remains responsible to oversee and ensure that the trailing obligations are met.

The Company received a sum of $100,000 (2017- $250,000) from the joint operation for management and on achieving the milestone of park lands submission, and the second milestone being the park reconveyance to the City is expected to be in the first quarter of 2019. The Company expects all the specific requirements to be met no later than October 2020 when it will receive the remaining balance project management fees of $25,000.

As part of the trailing obligations, the Company is also required to assist in the provision of a certain number of affordable housing units by providing financial assistance to the purchasers of those units. The Company estimates total costs of $1,500,000 to be incurred in the future.

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Cost	Accumulated depreciation and amortization	2017
	$	$	$
Leasehold improvements	831,508	(628,943)	202,565
Furniture, fixtures and office equipment	23,074	(4,970)	18,104
Computer equipment	224,949	(93,111)	131,838
Software license	46,499	(17,703)	28,796
Total	1,126,030	(744,727)	381,303

Reconciliation of property, equipment and intangible assets is set out below:

	Notes	**2018**	2017
		$	$
Balance - Beginning of year		**381,303**	413,575
Additions		**6,820**	124,118
Sale		**(385,664)**	-
Depreciation and amortization	31	**(2,459)**	(156,390)
Total - End of year		**-**	381,303

The Company wrote off obsolete capital assets of $2,459 and transferred the remaining of its capital assets at net book value to CreateTO, a newly established real estate agency of the City, effective January 1, 2018, as part of the City-wide real estate reorganization.

17. AMOUNTS PAYABLE AND OTHER LIABILITIES

	2018	2017
	$	$
Trade payables - general	**1,455,587**	2,224,644
Accruals (a)	**3,842,512**	4,592,823
Total payables and accrued liabilities	**5,298,099**	6,817,467
Deferred lease inducement	**-**	195,960
Unearned revenue	**97,504**	88,330
Security deposit	**63,283**	-
Total	**5,458,886**	7,101,757
Less: Current portion	**(4,372,811)**	(5,929,002)
Non-current amounts payable and other liabilities	**1,086,075**	1,172,755

a) Amount includes accruals of $2,230,786 (2016 - $2,691,228) in connection with properties sold in prior years.

18. ENVIRONMENTAL PROVISION

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

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

	Notes	2018	2017
		$	$
Balance - Beginning of year		**8,298,169**	17,729,050
Adjustment to real estate inventory (a)	5	**-**	(140,430)
Utilized in year (b)	5c	**(70,244)**	(197,417)
Accretion (c)		**-**	78,568
Costs recorded in statement of income (d)	22	**(706,340)**	(1,396,283)
Costs recorded in contributed surplus (e)	34a	**-**	(7,775,319)
Total - End of year		**7,521,585**	8,298,169

a) In 2017, the provision was decreased by $140,430 as a result of the change in discount rate and timing of the remediation costs, which resulted in a corresponding adjustment in the real estate inventory.

b) During the year ended December 31, 2018, environmental remediation costs of $70,244 (2017 - $197,417) were incurred.

c) In 2017, the Company measured the environmental provision at net present value with a discount rate which reflected the shareholder's WACC of 4.1% and accretion expense in the amount of $78,568 was recognized as a financing cost in the consolidated statements of net income and comprehensive income.

d) During the year ended December 31, 2018, an original provision of $900,000 (2017 - $1,500,000) net of previously utilized costs of $193,660 (2017 - $103,717) relating to the sale of a property was reflected in the cost of sales.

e) In 2017, the environmental provision of $7,775,319 related to the two properties returned to the City were reversed to contributed surplus.

19. DEBT

	Notes	2018	2017
		$	$
Government agency mortgage(a)	10a	**30,284,593**	31,133,669
Construction financing (b)		**12,306,490**	12,306,490
Total debt		**42,591,083**	43,440,159
Less: Current portion		**(13,226,333)**	(13,198,879)
Non-current debt		**29,364,750**	30,241,280

a) As mentioned in Note 10(a), the facility from a government agency was drawn on in June 2013 to provide financing assistance for PTSI. The loan facility agreement provided for conversion of the facility to a 25-year amortizable debenture on the maturity date of December 2014 and this interest only facility was extended to the beginning of March 2017. On March 10, 2017, the agreement was renewed with a repayment of $1,700,000 to the government agency, and the remaining facility was then converted into a 10-year term mortgage with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and matures on March 15, 2027.

During the year ended December 31, 2018, the Company made total principal repayments of $847,861 (2017 - $2,317,647). The balance includes accrued interest of $43,313 (2017 - $44,528).

The loan is secured by the assets and corporate guarantees of BTHOI, an assignment of all of the Company's security from PTSI (note 10(a)), and leasehold charges related to the land lease on certain additional expansion lands leased by PTSI.

b) In November 2016, the Company obtained a loan facility, comprised of an interim construction loan and an operating loan, total not to exceed the amount of $16.8 million for the construction of a property for commercial use. The loan facility has been collateralized by a first mortgage charge on the construction site, guarantee, insurance policies and by assignment of term deposits, rents and leases. The financing of the interim construction loan and the operating loan consists of interest bearing loans at prime plus 0.50% per annum and bankers' acceptances at 2.00% per annum, and prime plus 0.50% per annum respectively. The Company started drawing on it in February 2017 and the borrowed amount, originally had to be repaid by July 31, 2018 but it has been extended to July 31, 2019.

For the year ended December 31, 2018, the Company incurred interest of $502,206 (2017 - $191,963) which it fully expensed (2017 - $95,861 capitalized to the real estate inventory).

20. SHAREHOLDER'S EQUITY

a) Common share - As at December 31, 2018, one (2017 - one) common share is authorized, issued and outstanding.

b) Dividends - A dividend of $25 million was declared and paid during the year ended December 31, 2018 (2017 - $25 million).

21. DEVELOPMENT REVENUE

	2018	2017
	$	$
Development revenue	**28,922,458**	57,561,660

During the year ended December 31, 2018, the Company sold three inventory properties for $28,858,658 (2017 - $57,561,660), and the remaining net balance of $63,800 (2017 - $nil) relates to purchase price adjustments of the properties that the Company sold in prior years.

22. COST OF SALES

	Notes	2018	2017
		$	$
Land		**12,742,763**	19,938,609
Capitalized costs		**1,094,172**	4,523,534
Legal and commissions		**541,516**	1,683,172
Cost of sales	5d	**14,378,451**	26,145,315
Reversal of environmental provision	18d	**(706,340)**	(1,396,283)
Total cost of sales		**13,672,111**	24,749,032

23. RENTAL REVENUE

	Notes	2018	2017
		$	$
Rental revenue			
Leases	9d	**1,822,614**	710,817
Recoveries related to property taxes		**1,391,623**	1,070,856
		3,214,237	1,781,673
Revenue from contracts with customers			
Recoveries related to operating costs (a)		**301,941**	35,208
Licenses and other		**131,348**	262,463
Total rental revenue		**3,647,526**	2,079,344

a) The recoveries related to operating costs are further broken down as follows:

	2018	2017
	$	$
Maintenance	**76,001**	-
Service	**145,482**	7,698
Utilities	**80,458**	27,510
Recoverable operating costs	**301,941**	35,208

24. RENTAL EXPENSES

	2018	2017
	$	$
Utilities, repairs and maintenance and security	**287,275**	49,103
Insurance	**20,316**	21,663
Property taxes	**1,424,213**	1,200,222
Other recoverable operating costs	**71,715**	85,575
Other non-recoverable operating costs	**146,316**	5,841
Total rental expenses	**1,949,835**	1,362,404

25. PROJECT MANAGEMENT FEES

	Notes	2018	2017
		$	$
Bridge and path (a)	34a	**83,672**	50,000
Rail deck park (b)	34a	-	147,000
Property consulting (c)	34b, 34d	**400,000**	276,235
Joint operation project management (d)		**100,000**	250,000
Total project management fees		**583,672**	723,235

a) Pursuant to an agreement entered into in June 2014 between the City and the Company, the Company has been appointed as the City's agent to oversee the design/build process and construction of a pedestrian and cycling bridge and path on certain lands. To fulfil its obligations, the Company engages third-party suppliers to manage the execution and performance of the work, and the related costs are fully funded by the City through periodic draw requests; in return, the Company receives project management fees.

b) In 2017, the City engaged the Company as a team member of the rail deck park project to provide support for the implementation of the project work plan, in return, the Company received management fee.

c) In 2018, the Company billed Toronto Transit Commission a property consulting fee of $400,000. In 2017, pursuant to an agreement entered into in January 2014 between TPLC and the Company, the Company assists TPLC in the management and selling of a property in return for 20% of the net proceeds. On May 3, 2017, part of the property was sold and the Company received, in addition to the cost reimbursements, property consulting fees of $276,235.

d) On November 1, 2015, the co-owners of the joint venture operation entered into a consulting agreement with a purchaser for certain work and services required relating to the inventory properties sold on October 29, 2015. A fee of $100,000 (2017 - $250,000) was earned by each co-owner for assistance in achieving milestones related to the trailing obligations of the purchaser.

26. INTEREST INCOME

	2018	2017
	$	$
Investments	**1,165,072**	317,101
Mortgage receivable interest	**1,593,870**	1,685,100
Loan interest	**29,899**	156,642
Bank interest income	**139,021**	214,223
Other	**1,392**	527
Total interest income	**2,929,254**	2,373,593
Add (less):		
Amortization of interest differential loan discount	**(29,014)**	(29,014)
Change in accrued mortgage receivable interest	**1,049,669**	(845,696)
Change in accrued loans receivable interest	**1,214**	(284)
Change in GIC and short-term deposits interest accrued	**(44,696)**	264,088
Cash interest received	**3,906,427**	1,762,687

Certain amounts receivable have been adjusted to fair value using the estimated market interest rate at the time they were assumed or issued. These fair value adjustments were amortized to interest income over the expected life of the receivable using the effective interest rate method. Non-cash adjustments to interest income have been recorded as items not involving cash in the consolidated statements of cash flows.

27. OTHER INCOME

	Notes	2018	2017
		$	$
Proceeds		**605,173**	-
Cost of equity accounted investments	14	**(111,856)**	-
	34f	**493,317**	-
Legal and accounting fees on disposal		**(10,000)**	-
Net income from sale of investments (a)		**483,317**	-
Guarantee fee (b)	34f	**166,000**	131,417
Cancellation fee (c)		**176,990**	-
Total other income		**826,307**	131,417

a) On May 14, 2018, the Company earned a net income of $483,317 (2017 - $nil) as the result of Bell Media Inc. exercising the option to increase its ownership of TWSI and TWSDI.

b) On March 10, 2017, the interest-only loan facility was amended to become an amortizing loan to PTSI. Concurrently, the Company entered into an amended and extended loan from the government agency. PTSI pays the Company a guarantee fee of $166,000 per annum, calculated as 0.50% of the appraised studio lands value of $33,200,000 which were pledged as security for the Company's loan.

c) Amount represents cancellation fee received on a signed lease agreement that did not materialize at 75 Billy Bishop.

28. INCOME FROM EQUITY ACCOUNTED INVESTMENTS

	Notes	2018	2017
		$	$
TWSI	14	**579,420**	559,044
TWSDI	14	**(72,339)**	(33,761)
	34f	**507,081**	525,283
120-130 Harbour Street Partnership	15	**11,106,291**	(251,277)
Income from equity accounted investments		**11,613,372**	274,006

29. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2018	2017
		$	$
Salaries and benefits		-	5,575,310
Restructuring costs		-	215,645
Office services		-	526,664
Office occupancy		-	673,058
Professional fees		-	527,783
Marketing and promotion		-	152,426
Management fee charged by CreateTO (a)	34c	**7,634,306**	-
General and administrative expenses		**7,634,306**	7,670,886

a) Pursuant to a service agreement established between CreateTO and the Company, effective January 1, 2018, the Company 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

30. PROJECT INVESTIGATIVE COSTS

	Notes	2018	2017
		$	$
Costs written off from real estate inventory	5d	-	327,371
Costs written off from pre-acquisition costs	6b	**24,184**	19,218
Project investigative costs		**24,184**	346,589

31. AMORTIZATION AND DEPRECIATION

	Notes	2018	2017
		$	$
Amortization of leasing costs	9	**54,472**	8,157
Depreciation	16	**2,459**	156,390
Amortization and depreciation		**56,931**	164,547

32. INTEREST EXPENSE

	Notes	2018	2017
		$	$
Interest expense incurred on debt		**1,523,412**	1,052,387
Accretion of environmental provision	18	**-**	78,568
		1,523,412	1,130,955
Add (less):			
Change in debt accrued interest		**(94,646)**	103,823
Accretion of environmental provision		**-**	(78,568)
Cash interest paid		**1,428,766**	1,156,210

33. SUPPLEMENTAL CASH FLOW INFORMATION

	2018	2017
	$	$
(Increase) decrease in restricted cash	**(360,401)**	27,917
Increase in due from related parties	**(2,847,840)**	(1,519,884)
(Increase) decrease in amounts receivable	**2,911,716**	(712,818)
Decrease in prepaid expenses	**142,523**	26,423
(Increase) decrease in loans receivable	**14,916,374**	(801,167)
Increase (decrease) in amounts payable and other liabilities	**(1,642,872)**	275,954
Changes in non-cash working capital	**13,119,500**	(2,703,575)

a) Supplementary information

	Notes	2018	2017
		$	$
Interest received during the year	26	**3,906,427**	1,762,687
Interest paid during the year	32	**1,428,766**	1,156,210

34. RELATED PARTIES

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

Related parties	Relationship
CreateTO	Same parent
City of Toronto Economic Development Corporation (operating as Toronto Port Lands Company (TPLC))	same parent
Toronto Transit Commission (TTC)	same parent
Toronto Hydro-Electric Systems Limited (THSL)	same parent
Toronto Community Housing Corporation	same parent
Toronto Waterfront Studios Inc. (TWSI)	investee, tenant, debtor
Toronto Waterfront Studios Development Inc. (TWSDI)	debtor, investee
Ontario Municipal Employees Retirement System (OMERS)	post-employment benefit plan

a) The City

During the year ended December 31, 2018, there was no transfer of properties from the City (Note 5(a)). In 2017, the shareholder transferred a property to the Company which at the time of transfer had a fair value of $5,621,034 (Note 5(a)), and the transfer was recorded with a corresponding increase of the contributed surplus. This was offset by the return of two properties to the Shareholder with a total carrying value of $12,559,745 (Note 5(b)), net of the corresponding environmental provision of $7,775,319 (Note 18(e)), for a net amount of ($4,784,426). Overall, the effect of property transfers was an increase of contributed surplus of $836,608.

The consolidated statements of financial position include the following balances related to the City:

	Notes	2018	2017
		$	$
Real estate inventory (I)		**3,538,023**	2,963,901
Pre-acquisition costs (I)		**737,869**	241,972
Due from related parties (II)	7	**2,844,817**	3,352,968
Amounts receivable		**-**	145,497
Amounts payable and other liabilities (III)		**(929,167)**	(1,339,022)

I. Amounts relate to capitalized application and permit fees, development charges and realty taxes.

II. The balance is comprised of the following:

	Notes	2018	2017
		$	$
Security deposit (i)		**30,000**	30,000
Recoverable costs from the City (ii)		**534,079**	1,322,797
City initiative projects (iii)		**1,667,044**	1,833,066
Property tax refund (iv)		**579,250**	225,737
Chargebacks and prepayment to (by) the City		**34,444**	(58,632)
	7	**2,844,817**	3,352,968

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

i. The balance is a deposit of $30,000 (2017 - $30,000) held by the City in lieu of a letter of credit for a site.

ii. In May 2018, the Company was reimbursed by the City for $1,266,577 (2017 - $nil) related to a property that was returned to the City in April 2017.

iii. The balance represents recoverable costs incurred on projects of which the Company acts as an agent for the City and Waterfront Secretariat, a division of the City.

iv. Balance represents estimated realty tax recovery upon successful tax appeal.

III. The balance includes affordable housing second mortgage of $756,030 (2017 - $756,030) payable to the City on a property that was sold in 2016, and estimated accrued realty tax of $173,137 (2017 - estimated accrued realty tax and water and sewer service of $582,992) owed to the City.

The Company had transactions with the City in its ordinary course of business throughout the year ended December 31, 2018. Transactions, both revenue and (expenses) with the City, which passed through the consolidated statements of net income and comprehensive income during the year were as follows:

	Notes	**2018**	2017
		$	$
Project management fees	25	**83,672**	197,000
Cost of sales (IV)		**(194,063)**	(638,236)
Property operating expenses (V)		**(541,995)**	(1,275,403)
General and administrative expenses (VI)		**-**	(217,730)

IV. The balance comprised of municipal taxes, building permit and planning approval fees.

V. The balance comprised of license fee, municipal taxes and utilities paid to the City.

VI. In 2017, the charge was for City legal services performed during the year.

In addition, the Company declared and paid dividends of $25 million to the City during the year (2017 - $25 million) (Note 20).

b) Toronto Transit Commission

The consolidated statements of financial position include the following balances related to TTC:

	Notes	**2018**	2017
		$	$
Due from related parties	7	**1,636,575**	-

The Company assists in the development of a property of which the TTC is the occupant and the Company receives property consulting fee as well as cost reimbursements for developing the property. The balance represents the consulting fee and development costs due to the Company as at December 31, 2018.

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

For the year ended December 31, 2018, property consulting income from TTC, which passed through the consolidated statements of net income and comprehensive income were as follows:

	Notes	**2018**	2017
		$	$
Project management fees	25	**400,000**	-

c) CreateTO

The consolidated statements of financial position include the following balances related to CreateTO:

	Notes	**2018**	2017
		$	$
Due from related parties	7	**1,664,311**	-

Pursuant to an agreement between CreateTO and the Company entered into in 2017, effective January 1, 2018, CreateTO provides the Company services in return for management fees. The balance represents an advance on 2019 management fees.

Effective January 1, 2018, the Company assigned its office lease at 200 King Street West to CreateTO with the latter assuming all obligations and liabilities including deferred inducements related to the lease (Note 35(a)).

In addition, the Company sold all its capital assets to CreateTO at their carrying value (Note 16).

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

For the year ended December 31, 2018, allocations from CreateTO, which passed through the consolidated statements of net income and comprehensive income were as follows:

	Notes	**2018**	2017
		$	$
General and administrative expenses	29	**(7,634,306)**	-

d) Toronto Port Lands Company

The consolidated statements of financial position include the following balances related to TPLC:

	Notes	**2018**	2017
		$	$
Due from related parties	7	**250,966**	195,861

Pursuant to an agreement between TPLC and the Company entered into in 2014, the Company assisted TPLC in the management and selling of a property in return for 20% of the net proceeds in addition to costs reimbursement. On May 3, 2017, part of the property was sold and the Company received costs reimbursement of $490,647 and property consulting fees of $276,235 (Note 25(c)). The outstanding balance represents additional recoverable costs and charges, net of recovery, incurred in the year.

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

The Company had transactions with TPLC in its ordinary course of business throughout the year ended December 31, 2018. Revenue from TPLC which passed through the consolidated statements of net income and comprehensive income during the year was as follows:

	Notes	**2018**	2017
		$	$
Project management fees	25c	**-**	276,235

e) Toronto Hydro-Electric Systems Limited

The Company had transactions with the THSL in its ordinary course of business throughout the year ended December 31, 2018. The consolidated statements of financial position include the following balances related to the THSL:

	2018	2017
	$	$
Real estate inventory	**274,304**	274,304

Amount represented capitalized utility connection and usage costs for properties under development.

f) Pinewood Toronto Studios Inc., Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.

The consolidated statements of financial position include the following balances related to PTSI, TWSI and TWSDI:

	Notes	**2018**	2017
		$	$
Amounts receivable	8	**544,930**	1,344,267
Loans receivable	10a	**30,284,593**	31,133,668
Investment in equity accounted investments (I)	14	**3,542,569**	3,867,344

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

   Land, land improvements, shares and a shareholder loan receivable were transferred from TPLC in 2009.

   On May 14, 2018, the Company's equity interests in TWSI and TWSDI have been reduced to 18.57% and 18.58% respectively as a result of Bell Media Inc. exercising the option to increase its ownership of TWSI and TWSDI to 50.01% and 49.99% respectively (Notes 14 and 27).

The Company had transactions with PTSI and TWSI during the year ended December 31, 2018 and the transactions which passed through the consolidated statements of net income and comprehensive income were as follows:

	Notes	**2018**	2017
		$	$
Rental revenue		**1,551,674**	1,502,203
Other income	27	**659,317**	131,417
Share of net income from equity from equity accounted investments	28	**507,081**	525,283
Interest income		**1,021,191**	1,039,638

g) Key management and director compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. As a result of the City-wide real estate initiative, effective January 1, 2018, the Company no longer has its own key management personnel and employees but is served by CreateTO (Note 29(a)). In 2017, the Company's key management personnel include the members of the Board of Directors, Chief Executive Officer, CFO and the Senior Vice Presidents.

In 2017, the compensation paid or payable to the key management and directors is shown below:

	2017
	$
Salaries and other short-term employee benefits and termination benefits	1,314,474
Directors' fees	84,750
	1,399,224

h) Post-employment benefit plan

As a result of the City-wide real estate initiative, effective January 1, 2018, the Company's employees became employees of CreateTO and the Company's participation in the OMERS pension plan, which was discontinued.

In 2017, all of the Company's permanent employees participated in a pension plan through OMERS. The Company 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 Company does not recognize any share of the OMERS pension surplus or deficit. The Company's service contributions to the OMERS pension plan for the year ended December 31, 2017, which were expensed, totalled $524,701 and were included in salaries and employee benefits expense in the consolidated statements of net income and comprehensive income.

35. COMMITMENTS AND CONTINGENCIES

a) Operating Leases

Effective January 1, 2018, the Company's office lease at 200 King Street West was assigned to CreateTO.

During the year ended December 31, 2017, the Company paid $310,750 in minimum lease payments and common area maintenance costs and property taxes of $412,591 with respect to the lease of the office premise, and operating lease payments of $12,764 for office equipment.

b) Trailing obligations

On December 19, 2017, the Company sold a property to a third-party developer. Conditional to the sale, the purchaser has to enter into an affordable housing reconveyance agreement with a non-profit organization by delivering to the latter a part of the property for the development of affordable housing. As consideration for the assignment, the Company will receive an amount of $600,000 from the non-profit organization.

c) Future assignment of loans receivable

I. On September 8, 2016, the Company sold a property to a third-party developer. Conditional to the sale was a requirement of the purchaser to include in the project a community recreational centre and 15 condominium units of affordable housing. During the year ended December 31, 2018, the obligations relating to the promissory note of $2,756,000 for the community centre were fulfilled and the note was assigned to the future owner of the community recreational owner to pay the developer for the construction costs of the shell of the facility.

II. The Company is also required to contribute $756,030 for affordable housing which will be assigned to third parties once the developer has met the requirements, an obligation fulfilled by the Company in September 2017. The affordable housing loan will be utilized along with other accrued amounts to provide second mortgage financing for future purchasers of the affordable housing units.

d) Litigation

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

36. CAPITAL MANAGEMENT

The Company's capital is comprised of debt and shareholder's equity. The following table summarizes the carrying value of the Company's capital as at December 31, 2018 and 2017.

	Notes	**2018**	2017
		$	$
Shareholder's equity		**238,687,299**	242,159,489
Debt	19	**42,591,083**	43,440,159
		281,278,382	285,599,648

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

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

a) Credit risk

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

The Company, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that management believes the Company has thorough and rigorous credit approval procedures. The Company provides for an allowance for doubtful accounts to absorb potential credit losses when required. During the year ended December 31, 2018, no allowance for doubtful accounts was recorded (2017 - $nil) and no bad debt (2017 - $nil) was written off to the consolidated statements of net income and comprehensive income.

The VTB mortgage receivable of $3,003,231 (2017 - $17,919,605) (Note 10(b)) due from the purchaser is collateralized on the sold property. The mortgage receivable due from TWSI is collateralized with a leasehold mortgage and $4.0 million in guarantees from the shareholders of TWSI. As such, in the event of default, the Company can take title and liquidate the assets of TWSI and enforce the guarantees. The promissory note of $756,030 (2017 - promissory notes of $3,512,030) (Notes 10(c)) due from the third-party developer is registered and secured on the sold property. The cash and cash equivalents and short-term investments are held by a Schedule 1 Canadian financial institution.

b) Interest rate risk

Interest rate risk is borne by an interest bearing asset or liability as a result of fluctuations in interest rates. The Company is not subject to interest rate risk on the government agency mortgage as the interest is fixed at 3.33% (Note 19(a)) and it is exposed to interest rate risk through its construction financing (Note 19(b)), the interest rate of which is set at prime plus 0.50% per annum. As at December 31, 2018, a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately $123,065.

The amortizable loan receivable due from PTSI is not subject to interest rate risk as the interest rate is fixed at 3.33%. The promissory notes are not subject to interest rate risk now as they are non-interest bearing until the maturity date when an interest rate of prime plus 5% per annum would be imposed.

The VTB mortgage receivable from the purchaser is not subject to interest rate risk as the interest rates are fixed at 3.25%.

c) Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. Management believes the liquidity risk of the Company is low.

An analysis of the Company's contractual maturities of its material financial liabilities is set out below:

	Payments Due by Year				
	2019 to 2020	2021 to 2022	2023 to 2024	Thereafter	Total
	$	$	$	$	$
Debt	14,089,189	1,905,292	2,036,318	24,560,284	42,591,083

In addition, the Company has contractual commitments with respect to outstanding accounts payable and other liabilities, certain existing and sold real estate inventory, and investment properties.

38. SUBSEQUENT EVENTS

a) Declaration of dividend

On May 13, 2019, the Board of Directors declared a dividend of $25 million to be paid in 2019.

b) Real estate inventory sale

Subsequent to year end, 75 Billy Bishop and Old Western Road were sold on April 1st and April 18th respectively.

39. APPROVAL OF FINANCIAL STATEMENTS

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