Consolidated Financial Statements
(In Canadian dollars)

# BUILD TORONTO INC.

And Independent Auditors' Report thereon

Year ended December 31, 2020

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

# INDEPENDENT AUDITORS' REPORT

To the Shareholder of Build Toronto Inc.

## *Opinion*

We have audited the consolidated financial statements of Build Toronto Inc. and its subsidiaries (together, the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in shareholder's equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## *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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

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

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

### *Other Matter - Comparative Information*

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 24, 2020.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

May 11, 2021

# BUILD TORONTO INC.

Consolidated Statement of Financial Position
(In Canadian dollars)

December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 9) | $ 99,930,604 | $ 117,492,479 |
| Restricted cash (note 11) | 185,448 | 24,668 |
| Short-term investments (note 10) | 65,750 | 65,750 |
| Current portion of amounts receivable (note 7) | 564,762 | 981,151 |
| Due from related parties (note 6) | 9,164,196 | 5,321,938 |
| Current portion of loans receivable (note 8) | 1,733,599 | 948,226 |
| Prepaid expenses | 39,976 | 13,586 |
| Pre-acquisition costs (note 5) | 4,172,492 | 4,343,881 |
| Real estate inventory (note 4) | 63,111,829 | 80,915,447 |
| | 178,968,656 | 210,107,126 |
| Investment property (note 12) | 21,530,000 | 21,000,000 |
| Non-current asset (note 4(e)) | 2,919,136 | – |
| Investment in associates (note 13) | 6,346,986 | 4,524,202 |
| Investment in joint venture (note 14) | 3,581,247 | 5,340,575 |
| Amounts receivable (note 7) | 4,612,494 | 513,083 |
| Loans receivable (note 8) | 30,726,742 | 32,317,098 |
| | $ 248,685,261 | $ 273,802,084 |
| **Liabilities and Shareholder's Equity** | | |
| Current liabilities: | | |
| Current portion of amounts payable and other liabilities (note 15) | $ 3,743,467 | $ 2,933,968 |
| Environmental provision (note 16) | – | 7,462,111 |
| Current portion of debt (note 17) | 977,568 | 948,226 |
| | 4,721,035 | 11,344,305 |
| Amounts payable and other liabilities (note 15) | – | 1,086,075 |
| Debt (note 17) | 27,521,774 | 28,458,582 |
| | 32,242,809 | 40,888,962 |
| Shareholder's equity (note 18) | 216,442,452 | 232,913,122 |
| Commitments and contingencies (note 33) | | |
| | $ 248,685,261 | $ 273,802,084 |

See accompanying notes to consolidated financial statements.

# BUILD TORONTO INC.

Consolidated Statement of Income and Comprehensive Income
(In Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| Development: | | |
| Development revenue (note 19) | $ 20,000,000 | $ 37,925,675 |
| Direct costs (note 20) | 11,085,095 | 25,241,305 |
| | 8,914,905 | 12,684,370 |
| Rental: | | |
| Rental revenue (note 21) | 1,476,651 | 1,999,209 |
| Rental expense (note 22) | 966,172 | 1,330,620 |
| | 510,479 | 668,589 |
| | 9,425,384 | 13,352,959 |
| Other income (expenses): | | |
| Income from investment in associates and joint venture (note 26) | 3,174,083 | 9,089,455 |
| Interest income (note 24) | 2,643,434 | 3,358,072 |
| Fair value gains on investment property (note 12) | 530,000 | 5,472,000 |
| Project management fees (note 23) | 225,000 | 4,945,148 |
| Other (note 25) | 166,000 | 166,000 |
| Project investigative costs (note 28) | (183,288) | (387,325) |
| Interest expense (note 29) | (962,801) | (1,144,429) |
| Contribution to affordable housing (note 32) | (1,500,000) | – |
| General and administrative (note 27) | (7,947,880) | (7,957,604) |
| Amortization and depreciation | – | (16,250) |
| | (3,855,452) | 13,525,067 |
| Net income and comprehensive income | $ 5,569,932 | $ 26,878,026 |

See accompanying notes to consolidated financial statements.

# BUILD TORONTO INC.

Consolidated Statement of Changes in Shareholder's Equity
(In Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

| | Common share | Contributed surplus | Retained earnings (deficit) | Total |
|---|---|---|---|---|
| Balance, January 1, 2019 | $ 1 | $ 225,217,763 | $ 13,469,535 | $ 238,687,299 |
| Net income | – | – | 26,878,026 | 26,878,026 |
| Transfer of a property to the shareholder (note 4(b)) | – | (7,652,203) | – | (7,652,203) |
| Dividend paid (note 18(b)) | – | – | (25,000,000) | (25,000,000) |
| Balance, December 31, 2019 | 1 | 217,565,560 | 15,347,561 | 232,913,122 |
| Net income | – | – | 5,569,932 | 5,569,932 |
| Transfer of a property from the shareholder (note 4(a)) | – | 2,959,398 | – | 2,959,398 |
| Dividend paid (note 18(b)) | – | – | (25,000,000) | (25,000,000) |
| Balance, December 31, 2020 | $ 1 | $ 220,524,958 | $ (4,082,507) | $ 216,442,452 |

See accompanying notes to consolidated financial statements.

# BUILD TORONTO INC.

Consolidated Statement of Cash Flows
(In Canadian dollars)

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| Cash provided (used in): | | |
| Operating activities: | | |
| Net income | $ 5,569,932 | $ 26,878,026 |
| Items not involving cash and other adjustments: | | |
| Income from investment in associates and joint venture (note 26) | (3,174,083) | (9,089,455) |
| Project investigative costs (note 28) | 183,288 | 387,325 |
| Fair value gains on investment property (note 12) | (530,000) | (5,472,000) |
| Interest income | (2,643,434) | (3,358,072) |
| Interest received (note 24) | 2,302,844 | 3,133,511 |
| Net interest expense and other financing charges | 962,801 | 1,144,429 |
| Straight line rent | – | (18,500) |
| Deferred lease inducement amortization | – | 19,306 |
| Amortization and depreciation | – | 16,250 |
| Real estate inventory: | | |
| Additions (note 4(c)) | (1,562,918) | (576,769) |
| Direct costs (note 4(d)) | 19,382,785 | 23,787,234 |
| Pre-acquisition costs (note 5) | (11,899) | (7,106) |
| Deferred leasing costs | – | (28,492) |
| Non-cash direct costs (note 20) | – | 1,554,091 |
| Change in non-cash operating working capital (note 30) | (15,187,719) | 573,761 |
| | 5,291,597 | 38,943,539 |
| Financing activities: | | |
| Repayment of loan payable (note 17) | (906,168) | (876,530) |
| Repayment of construction loan | – | (12,306,490) |
| Dividend paid (note 18(b)) | (25,000,000) | (25,000,000) |
| Interest paid (note 29) | (964,099) | (1,145,684) |
| | (26,870,267) | (39,328,704) |
| Investing activities: | | |
| Joint venture equity and income distributions (note 14) | 3,311,955 | 36,045,910 |
| Investment in associates (note 13) | (201,328) | – |
| Receipt of loans receivable (note 8(a)) | 906,168 | 876,530 |
| Purchase of short-term investments (note 10) | – | (65,750) |
| | 4,016,795 | 36,856,690 |
| Increase (decrease) in cash and cash equivalents | (17,561,875) | 36,471,525 |
| Cash and cash equivalents, beginning of year | 117,492,479 | 81,020,954 |
| Cash and cash equivalents, end of year | $ 99,930,604 | $ 117,492,479 |

See accompanying notes to consolidated financial statements.

(In Canadian dollars)

Build Toronto Inc. (the "Company") was incorporated under the Ontario Business Corporations Act on November 13, 2008 and is a wholly owned subsidiary of the City of Toronto (the "City"). The Corporation supports CreateTO in the implementation of the City's real estate strategy, develops City buildings and lands for municipal purposes and delivers client-focused real estate solutions to City Divisions, Agencies and Corporations. 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, 2020.

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

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

Since the first quarter of 2020, the COVID-19 pandemic has impacted the global economic environment due to government imposed lockdowns and social distancing requirements. The COVID-19 pandemic has also impacted the operations of the Company as work was performed remotely; however, there has been no material impact to the operations or the consolidated financial statements of the Company. The full extent of the impact is currently indeterminable due to the evolving nature of the COVID-19 pandemic.

## 1. Significant accounting policies:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 11, 2021.

1. **Significant accounting policies (continued):**

(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.

The consolidated financial statements have been prepared on the historical cost basis except for investment property 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 notes 2 and 3.

(c) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of Build Toronto Inc., entities controlled by the Company (its subsidiaries) and equity-accounted investments.

(i) Subsidiaries:

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company exercises control. Control exists when the Company is able to exercise power over the subsidiary, is exposed to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect the amount of its returns. Subsidiaries are consolidated from the date control is obtained and continue to be consolidated until the date when control is lost. The Company includes 100% of its subsidiaries' revenues and expenses in the consolidated statement of income and comprehensive income and 100% of its subsidiaries' assets and liabilities on the consolidated statement of financial position. All inter-company balances, transactions, unrealized gains and losses are eliminated in full. The Company continually reassesses its control of the subsidiaries.

## 1. Significant accounting policies (continued):

(ii) Equity-accounted investments:

Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Company accounts for associates and joint ventures using the equity method of accounting on the consolidated statement of financial position. Interests in the investments accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the investment is lower than the proportionate share of the investment's underlying fair value, the Company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the investment is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the investment is included in the carrying amount of the investment. Subsequent to initial recognition, the carrying value of the Company's interest in an associate or joint venture is adjusted for the Company's share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate or joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee. The carrying value of associates or joint ventures is assessed for impairment at each consolidated statement of financial position date. Impairment losses on equity-accounted investments may be subsequently reversed in net income.

(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.

**1. Significant accounting policies (continued):**

Cost includes 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. General and administrative expenses, including selling and marketing costs, are expensed as incurred. For real estate inventory received from the City, cost is deemed to be the fair value of the property less costs to sell.

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.

Direct costs of real estate inventory are 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.

**1. Significant accounting policies (continued):**

Subsequent to initial recognition, investment property is carried at fair value, determined based on available market evidence, at the consolidated statement of financial position 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 real estate inventory and investment property:

A property is transferred from real estate 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 sale of real estate inventory.

A property is transferred from investment property to real estate 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 real estate inventory after transfer.

## 1. Significant accounting policies (continued):

(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) 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.

(f) 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 year.

## 1. Significant accounting policies (continued):

(g) Revenue from contracts with customers:

Revenue is recognized at a point in time or over time, depending on when the Company has satisfied its performance obligation(s) to its customers. Where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance to date, revenue is recognized in an amount to which the Company has a "right to invoice". The right to invoice represents the fair value of the consideration received or receivable. The following provides a summary of the nature of the various performance obligations within contracts with customers and when performance is recognized on those obligations:

(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 property. 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. Rental revenue also include recoveries of operating expenses and recoveries of capital expenditures from tenants in accordance with their leases ("recoveries revenue"). The Company capitalizes all commissions relates to the rental activities as a cost to obtain a contract when they are expected to be recovered. These costs are amortized consistently with the pattern of recognition for the related revenue.

## 1. Significant accounting policies (continued):

(ii) Development revenue:

Development revenue primarily includes sales of developed sites and land to third parties. 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.

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.

(iii) Other income:

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.

(h) Environmental provision:

The cost of the Company's obligation to remediate land is recognized 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.

(i) Dividends:

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

## 1. Significant accounting policies (continued):

(j) Financial instruments - classification:

Fair value measurement:

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

- Level 1 - This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date;

- Level 2 - This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs; and

- Level 3 - This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

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

| | Notes | Classification and measurement |
|---|---|---|
| Financial assets: | | |
| Due from related parties | 6 | Amortized cost |
| Amounts receivable | 7 | Amortized cost |
| Loans receivable | 8 | Amortized cost |
| Cash and cash equivalents | 9 | Fair value through profit and loss |
| Short-term investments | 10 | Fair value through profit and loss |
| Restricted cash | 11 | Fair value through profit and loss |
| Financial liabilities: | | |
| Amounts payable and other liabilities | 15 | Amortized cost |
| Debt | 17 | Amortized cost |

**1. Significant accounting policies (continued):**

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 statement of income and comprehensive income. 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.

## 1. Significant accounting policies (continued):

Amounts receivable are initially measured at fair value and are subsequently measured at amortized cost less a provision for impairment on amounts receivable as established based on the ECL model. Under the ECL model, the Company estimates lifetime expected losses for its amounts receivable at each consolidated statement of financial position 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 statement 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 statement 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 statement 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 de-recognition 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 statement of income and comprehensive income.

## 1. Significant accounting policies (continued):

(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) 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 year. Actual results could differ from the estimates.

(i) Fair value of investment property at transfer date and year 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.

## 1. Significant accounting policies (continued):

(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 year 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 statement 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 investment in associates:

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:

Management uses 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.

## 1. Significant accounting policies (continued):

(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, 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 $24,177,515 at December 31, 2020 (2019 - $24,947,368), determined by discounting the carrying value of the instrument using an assessment of the market interest rate ranging from 3.5% to 3.76% (2019 - 3.76% to 5.05%) 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) 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.

## 1. Significant accounting policies (continued):

(m) Critical judgments:

The following are the critical judgments 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 real estate 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 real estate 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 real estate 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 investment in associates are described in note 1(c). 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.

## 1. Significant accounting policies (continued):

(iv) Assessment of classification of joint arrangements:

The Company's accounting policies relating to the joint arrangements are described in note 1(c). 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.

## 2. New accounting standards adopted in 2020:

The Company adopted the following accounting standards for the year ended December 31, 2020. The implementation of these standards did not have a significant impact on the consolidated financial statements.

(a) International Accounting Standard ("IAS") 1, Presentation of financial statements ("IAS 1"):

Amendments to IAS 1 have been made to provide clarification on the definition of materiality. Materiality depends on the nature or magnitude of the information or both. IAS 1 now defines the information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. IAS 1 provides some examples of circumstances that may result in material information being obscured.

(b) IAS 8, Accounting Policies, Changes in accounting estimates and errors ("IAS 8"):

Amendments to IAS 8 have been made by reference to the definition of materiality in IAS 1. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

## 3. Future accounting pronouncements:

Certain new accounting standards and interpretations that have been published but are not mandatory for implementation as at December 31, 2020 have not been early adopted in these consolidated financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements:

- COVID-19 related rent concessions (Amendment to IFRS 16, Leases);
- Proceeds before intended use (Amendments to IAS 16, Property Plant and Equipment);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets);

(In Canadian dollars)

## 3. Future accounting pronouncements (continued):

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10, IAS 28);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

The Company does not expect the adoption of these amendments to have a material impact to the consolidated financial statements.

## 4. Real estate inventory:

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

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 80,915,447 | $ 111,881,154 |
| Transfer from the shareholder (a) | 2,959,398 | – |
| Transfer to the shareholder (b) | – | (7,652,203) |
| Development costs - capital expenditures (c) | 803,458 | 213,051 |
| Development costs - sale closing costs (c) (note 20)) | 735,447 | 304,244 |
| Costs recorded in consolidated statement of income and comprehensive income (d) | (19,382,785) | (23,830,799) |
| Transfer of land to non-current assets (e) | (2,919,136) | – |
| Balance, end of year | $ 63,111,829 | $ 80,915,447 |

(a) During the year ended December 31, 2020, a property with total value of $2,959,398 was transferred from the shareholder to the Company. The fair value of the transferred property was estimated using a proportionate-share calculation based on the current sale price of a contiguous land parcel.

(b) During the year ended December 31, 2019, a property with a total value of $7,652,203, was transferred to the City.

(In Canadian dollars)

## 4. Real estate inventory (continued):

(c) Development costs of $1,538,905 (2019 - $517,295), together with remediation costs of $24,013 (2019 - $59,474) utilized against the environmental provision, are recorded as a cash outflow for the operating activities in the consolidated statement of cash flows.

| | 2020 | 2019 |
|---|---|---|
| Development costs | $ 1,538,905 | $ 517,295 |
| Utilization of environmental provisions (note 16) | 24,013 | 59,474 |
| | $ 1,562,918 | $ 576,769 |

(d) The Company recorded direct costs related to real estate inventory of $19,382,785 (2019 - $23,787,234) during the year ended December 31, 2020, 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. Breakdown of the costs recorded in the consolidated statement of income and comprehensive income is as follows:

| | 2020 | 2019 |
|---|---|---|
| Real estate inventory direct costs | $ 19,382,785 | $ 23,787,234 |
| Project investigative costs (note 28) | – | 43,565 |
| | $ 19,382,785 | $ 23,830,799 |

(e) During the year, as a result of a sale of a real estate inventory property, a portion of the site, which will be developed into a new park, under the Company's management, was transferred to non-current assets.

## 5. Pre-acquisition costs:

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 4,343,881 | $ 4,423,268 |
| Additions | 11,899 | 7,106 |
| Costs recorded in consolidated statement of income and comprehensive income | (183,288) | (86,493) |
| Balance, end of year | $ 4,172,492 | $ 4,343,881 |

(In Canadian dollars)

## 5. Pre-acquisition costs (continued):

During the year ended December 31, 2020, the Company wrote off aborted project costs of $183,288 (2019 - $86,493) to the consolidated statement of income and comprehensive income.

| | 2020 | 2019 |
|---|---|---|
| Project investigative costs (note 28) | $ 183,288 | $ 86,493 |

## 6. Due from related parties:

| | 2020 | 2019 |
|---|---|---|
| Due from City (note 31(a)) | $ 5,976,337 | $ 3,152,486 |
| Due from Toronto Transit Commission ("TTC") (note 31(b)) | – | 1,708,860 |
| Due from CreateTO (note 31(c)) | 3,176,790 | 361,742 |
| Due from Toronto Port Lands Company ("TPLC") (note 31(d)) | 11,069 | 98,850 |
| | $ 9,164,196 | $ 5,321,938 |

## 7. Amounts receivable:

| | 2020 | 2019 |
|---|---|---|
| Interest differential loan (a) (note 31(e)) | $ 462,985 | $ 433,971 |
| Trade receivables | 192,488 | 92,343 |
| HST refund | 184,912 | 20,235 |
| Interest receivable | 210,391 | 220,692 |
| Proceeds of sale and other adjustments receivable (b) | 4,096,083 | 694,564 |
| Other | 30,397 | 32,429 |
| Total amounts receivable | 5,177,256 | 1,494,234 |
| Less current portion | 564,762 | 981,151 |
| | $ 4,612,494 | $ 513,083 |

(In Canadian dollars)

**7. Amounts receivable (continued):**

(a) The balance of $462,985 (2019 - $433,971) represents the present value of deferred interest loan regarding PT Studios Inc., due on March 18, 2034.

(b) The increase in 2020 to $4,096,083 (2019 - $694,564) is primarily due to the estimated value of a serviced parcel of land to be transferred to the Company at a later date, in lieu of proceeds of $4,000,000 as well as other adjustments related to a sale of a real estate inventory property during the year.

**8. Loans receivable:**

| | 2020 | 2019 |
|---|---|---|
| Loan receivable - PTSI (a) (notes 17 and 31(e)) | $ 28,499,342 | $ 29,406,808 |
| Vendor-take-back ("VTB") mortgage (b) | 3,204,969 | 3,102,486 |
| Promissory note (c) | 756,030 | 756,030 |
| | 32,460,341 | 33,265,324 |
| Less current portion | 1,733,599 | 948,226 |
| | $ 30,726,742 | $ 32,317,098 |

(a) On March 10, 2017, the Company assisted Toronto Waterfront Studios Inc. ("TWSI") and renewed a previous agreement with a government agency. The new facility for $31,706,788 was converted to a 10-year mortgage with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017 and maturing on March 14, 2027.

During the year ended December 31, 2020, PTSI made total principal repayments of $906,168 (2019 - $876,530). The balance includes accrued interest of $40,760 (2019 - $42,058).

The loan with Pinewood Toronto Studios Inc. ("PTSI") is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI. During 2020 Toronto Waterfront Studios Development Inc. ("TWSDI") entered into a credit agreement with a syndicate of lenders to construct additional studio facilities. Under the new credit agreement the security related to the expansion lands is subordinated to the syndicate lenders providing the financing.

(In Canadian dollars)

## 8. Loans receivable (continued):

(b) The VTB mortgage of $3,000,000, issued in connection with a property sale transaction in December 2018, has an interest rate of 3.25% per annum, compounded semi-annually not in advance, and matures 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 $204,969 (2019 - $102,486), payable on maturity.

(c) The promissory note was issued in connection with a property sale transaction in September 2016. This note is non-interest bearing until the maturity date which is expected to occur in 2021. The note has an interest rate of prime plus 5% per annum, payable in arrears, from and after the maturity date, and secures the obligation of the purchaser to construct the contracted space for affordable housing (note 33(b)).

## 9. Cash and cash equivalents:

| | 2020 | 2019 |
|---|---|---|
| Short-term deposits | $ 41,003,287 | $ 32,753,147 |
| Premium interest account | 57,411,265 | 82,022,138 |
| Cash | 1,516,052 | 2,717,194 |
| Cash and cash equivalents | $ 99,930,604 | $ 117,492,479 |

The Company has $3,200,000 (2019 - $3,265,751) in outstanding letters of credit issued by financial institutions to securitize a tripartite development obligation to install infrastructure upgrades.

## 10. Short-term investments:

| | 2020 | 2019 |
|---|---|---|
| Short-term investments | $ 65,750 | $ 65,750 |

Short-term investments represent a 180-day, guaranteed investment certificate ("GIC") which earns 1% annually.

(In Canadian dollars)

## 11. Restricted cash:

| | 2020 | 2019 |
|---|---|---|
| Restricted cash | $ 185,448 | $ 24,668 |

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

## 12. Investment property:

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 21,000,000 | $ 15,528,000 |
| Net gain in fair value | 530,000 | 5,472,000 |
| Balance, end of year | $ 21,530,000 | $ 21,000,000 |

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 17).

Investment property measured at fair value in the consolidated statement 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.

The fair value of the film studio land and land improvements is estimated using DCF over a long term land lease (>90 years). The fair value of investment property increased in 2020 as a result of discounting the best estimate of the terminal value anticipated at the end of the projection period as well as the cash flows associated with the long term land lease. 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% (2019 - 5.5%). If the discount rate were to increase by 25 basis points ("bps"), the value of investment property would decrease from $21,530,000 to $19,510,000. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from $21,530,000 to $23,900,000.

(In Canadian dollars)

## 12. Investment property (continued):

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.

Periodically, the Company obtains an external valuation for the investment property. The external valuation is prepared by an independent professionally qualified valuator.

In 2019, the Company utilized an external valuation prepared at December 31, 2019 for the film studio investment property.

Changes in Level 3 fair values are reviewed annually by the chief financial officer.

## 13. Investment in associates:

On May 14, 2018, Bell Media Inc. exercised the option to increase its ownership in TWSI and 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 Inc. After the transaction, the Company's interests in TWSI and TWSDI, held through BTHOI, reduced to 18.57% and 18.58%, respectively. On November 12, 2020, Bell Media Inc. exercised a right of first offer and increased its ownership in TWSI to 62.983% when it purchased the outstanding shares of another minority shareholder.

The Company classifies 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 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Balance, beginning of year | $ 4,688,432 | $ 3,657,918 | $ (164,230) | $ (115,349) |
| Transfer of shareholder loan | (1,710,940) | – | 1,710,940 | – |
| Contributions | – | – | 201,328 | – |
| Share of net income (loss) (note 26) | 1,735,385 | 1,030,514 | (113,929) | (48,881) |
| Balance, end of year (note 31(e)) | $ 4,712,877 | $ 4,688,432 | $ 1,634,109 | $ (164,230) |

(In Canadian dollars)

## 13. Investment in associates (continued):

For the years ended December 31, 2020 and December 31, 2019, TWSI and TWSDI's financial positions are as follows:

| | TWSI | | TWSDI | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current assets | $ 7,728,767 | $ 11,805,843 | $ 6,480,341 | $ 247,365 |
| Non-current assets | 65,317,658 | 63,877,918 | 25,560,830 | 10,086,942 |
| Current liabilities | 5,704,811 | 16,061,234 | 19,267,504 | 8,839,876 |
| Non-current liabilities | 43,613,949 | 45,239,962 | 4,951,630 | 3,350,847 |
| Revenue | 17,674,122 | 18,252,038 | 768,741 | 567,194 |
| Net income (loss) and total comprehensive income (loss) | 9,345,100 | 5,549,347 | (613,181) | (263,082) |
| Ownership % | 18.57% | 18.57% | 18.58% | 18.58% |
| Share of net income (loss) | $ 1,735,385 | $ 1,030,514 | $ (113,929) | $ (48,881) |

The Company's share of income from TWSI and TWSDI for 2020 is $1,621,456 (2019 - $981,633).

During the year ended December 31, 2020, shareholder loans in the amount of $1,710,940 (2019 - nil), from TWSI were repaid and contributed to TWSDI for expansion financing. Additional contributions of $201,328 (2019 - nil) were made to TWSDI for expansion financing. The outstanding balance of shareholder advances from TWSDI is $180,000 (2019 - $180,000) and from TWSI is nil (2019 - $1,710,940). 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.

(In Canadian dollars)

## 14. Investment in joint venture:

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 5,340,575 | $ 33,278,663 |
| Cash distribution relating to capital investment | – | (22,750,000) |
| Cash distribution of income earned | (3,311,955) | (13,295,910) |
| Share of net income (note 26) | 1,552,627 | 8,107,822 |
| Balance, end of year | $ 3,581,247 | $ 5,340,575 |

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. The property was registered on March 27, 2019.

| Name | Principal activity | Location | Ownership interest 2020 | Ownership interest 2019 |
|---|---|---|---|---|
| 120-130 Harbour Street Partnership | Development | Toronto, Ontario | 35 | 35 |

For the years ended December 31, 2020 and 2019, the Partnership reported the following financial positions and results from operations:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 6,983,512 | $ 14,276,316 |
| Other assets | 9,090,592 | 13,298,984 |
| Total liabilities | 4,911,085 | 10,914,240 |
| Net income and total comprehensive income | 4,851,959 | 28,001,061 |
| Capital distribution % | 32% | 32% |
| Share of net income | $ 1,552,627 | $ 8,960,340 |

(In Canadian dollars)

### 14. Investment in joint venture (continued):

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. In 2018, the 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. The cash distribution received from the Partnership in 2020 was $3,311,955 (2019 - $36,045,910) , including return of capital of nil (2019 - $22,750,000), and distribution of income of $3,311,955 (2019 - $13,295,910).

### 15. Amounts payable and other liabilities:

| | 2020 | 2019 |
|---|---|---|
| Trade payables - general | $ 76,659 | $ 1,279,810 |
| Accruals (a) | 3,666,808 | 2,740,233 |
| | 3,743,467 | 4,020,043 |
| Less current portion | 3,743,467 | 2,933,968 |
| | $ – | $ 1,086,075 |

(a) Amount includes accruals of $1,808,121 (2019 - $2,023,103) in connection with properties sold in prior years, mainly related to construction obligations and $1,561,664 (2019 - $686,432) for current project related accruals.

### 16. 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.

(In Canadian dollars)

## 16. Environmental provision (continued):

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.

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 7,462,111 | $ 7,521,585 |
| Remediation costs incurred (note 4(c)) | (24,013) | (59,474) |
| Costs recorded in consolidated statement of income and comprehensive income (note 20) | (7,438,098) | – |
| | $ – | $ 7,462,111 |

On October 23, 2020, the environmental provision was written off on the consolidated statement of income and comprehensive income when the property associated with it was sold to a third party who assumed the remediation liability.

## 17. Debt:

| | 2020 | 2019 |
|---|---|---|
| Government agency mortgage (note 8(a)) | $ 28,499,342 | $ 29,406,808 |
| Less current portion | 977,568 | 948,226 |
| | $ 27,521,774 | $ 28,458,582 |

On March 10, 2017, the Company assisted TWSI and renewed the previous facility with a government agency which 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 maturing on March 15, 2027.

During the year ended December 31, 2020, the Company made total principal repayments of $906,168 (2019 - $876,530). The balance includes accrued interest of $40,760 (2019 - $42,058).

The loan is secured by the assets and corporate guarantees of BTHOI, an assignment of all of the Company's security from PTSI (note 8(a)), and leasehold charges related to the land lease on certain additional expansion lands leased by PTSI.

(In Canadian dollars)

## 18. Shareholder's equity:

(a) Common share:

As at December 31, 2020, one (2019 - one) common share is authorized, issued and outstanding.

(b) Dividends:

A dividend of $25,000,000 was declared and paid during the year ended December 31, 2020 (2019 - $25,000,000).

## 19. Development revenue:

| | 2020 | 2019 |
|---|---|---|
| Development revenue | $ 20,000,000 | $ 37,925,675 |

During the year ended December 31, 2020, the Company sold an inventory property for $16,000,000 cash and a future serviced land parcel worth $4,000,000 to be conveyed at a later date (2019 - two properties were sold for $37,925,675).

## 20. Direct costs:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 13,598,287 | $ 7,874,398 |
| Capitalized costs | 4,989,459 | 15,608,592 |
| Legal and commissions | 735,447 | 304,244 |
| | 19,323,193 | 23,787,234 |
| Deferred costs | – | 1,554,091 |
| Adjustments | (800,000) | (100,020) |
| Reversal of environmental provision (note 16) | (7,438,098) | – |
| | $ 11,085,095 | $ 25,241,305 |

Adjustments include $800,000 refund received during the year due to cost savings related to a prior year sale. These costs savings represent anticipated soil remediation work which were later determined to be not necessary.

In the prior year, the adjustments represented a reduction in the legal fees by $68,241 and development costs by $31,779.

(In Canadian dollars)

## 21. Rental revenue:

| | 2020 | 2019 |
|---|---|---|
| Rental revenue from leases | $ 517,114 | $ 821,096 |
| Recoveries related to property taxes | 925,790 | 1,042,277 |
| | 1,442,904 | 1,863,373 |
| Revenue from contracts with customers: | | |
| Recoveries related to operating costs | 413 | 81,714 |
| Other recoverable operating costs | 33,334 | 54,122 |
| | 33,747 | 135,836 |
| | $ 1,476,651 | $ 1,999,209 |

## 22. Rental expense:

| | 2020 | 2019 |
|---|---|---|
| Utilities, repairs and maintenance and security | $ – | $ 74,969 |
| Insurance | 12,921 | 26,854 |
| Property taxes | 919,917 | 1,094,248 |
| Other recoverable operating costs | 33,334 | 68,000 |
| Other non-recoverable operating costs | – | 66,549 |
| | $ 966,172 | $ 1,330,620 |

## 23. Project management fees:

| | 2020 | 2019 |
|---|---|---|
| City projects (a) (note 31(a)) | $ – | $ 273,250 |
| Property consulting (b) (note 31(b) and (d)) | – | 4,621,898 |
| Joint operating project management (c) | 225,000 | 50,000 |
| | $ 225,000 | $ 4,945,148 |

(a) Pursuant to an agreement entered into in June 2014 between the City and the Company, the Company was 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 fulfill its obligations, the Company engaged 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.

(In Canadian dollars)

## 23. Project management fees (continued):

(b) In 2019, the Company billed TTC a property consulting fee of $50,000. In addition, pursuant to an agreement entered into in January 2014 between TPLC and the Company, the Company assisted in the management and sale of a property in return for 20% of the net proceeds. On August 15, 2019, the remaining parcel was sold and the Company received consulting fees of $4,513,146. In 2019, additional net proceeds adjustment of $58,752 were received for a parcel that was sold in 2017, related to a building improvement refund.

(c) On November 1, 2015, the co-owners of the joint 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 $225,000 (2019 - $50,000) was earned by each co-owner for assistance in achieving milestones related to the trailing obligations of the purchaser.

## 24. Interest income:

| | 2020 | 2019 |
|---|---|---|
| Investments | $ 782,903 | $ 153,204 |
| Mortgage receivable interest | 1,065,283 | 1,091,736 |
| Loan interest | 29,792 | 29,846 |
| Bank interest income | 765,456 | 2,083,286 |
| Total interest income | 2,643,434 | 3,358,072 |
| Add (less): | | |
| Amortization of interest differential loan discount | (29,014) | (29,014) |
| Change in accrued mortgage receivable interest | (102,483) | (99,254) |
| Change in accrued loans receivable interest | 1,298 | 1,255 |
| Change in GIC, short-term deposits, and investment interest accrued | (210,391) | (97,548) |
| Cash interest received | $ 2,302,844 | $ 3,133,511 |

(In Canadian dollars)

## 25. Other income:

| | 2020 | 2019 |
|---|---|---|
| Guarantee fee (note 31(e)) | $ 166,000 | $ 166,000 |

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.

## 26. Income from associates and Joint venture:

| | 2020 | 2019 |
|---|---|---|
| **Associates** | | |
| TWSI (note 13) | $ 1,735,385 | $ 1,030,514 |
| TWSDI (note 13) | (113,929) | (48,881) |
| Subtotal (note 31(e)) | 1,621,456 | 981,633 |
| **Joint Venture** | | |
| 120-130 Harbour Street Partnership (note 14) | 1,552,627 | 8,107,822 |
| Income from associates and joint venture | $ 3,174,083 | $ 9,089,455 |

## 27. General and administrative expenses:

| | 2020 | 2019 |
|---|---|---|
| Management fee charged by CreateTO (a) (note 31(c)) | $ 7,867,859 | $ 7,786,143 |
| Directors fee | 35,037 | 43,333 |
| Office services (b) | 12,151 | 68,533 |
| Professional fees (c) | 32,833 | 59,595 |
| | $ 7,947,880 | $ 7,957,604 |

(In Canadian dollars)

## 27. General and administrative expenses (continued):

(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 management 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.

(b) Office services expenses include insurance and other costs.

(c) Amount represents the external professional services used in 2020, including audit, and legal services.

## 28. Project investigative costs:

| | 2020 | 2019 |
|---|---|---|
| Costs written off from: | | |
| Real estate inventory (a) (note 4(d)) | $ – | $ 43,565 |
| Pre-acquisition costs (a) (note 5) | 183,288 | 86,493 |
| Due from related party (b) | – | 257,267 |
| | $ 183,288 | $ 387,325 |

(a) Amounts represent costs which were written off due to no future benefit.

(b) Amount represents non-recoverable project costs.

## 29. Interest expense:

| | 2020 | 2019 |
|---|---|---|
| Interest expense incurred on debt | $ 962,801 | $ 1,144,429 |
| Add change in debt accrued interest | 1,298 | 1,255 |
| Cash interest paid | $ 964,099 | $ 1,145,684 |

(In Canadian dollars)

## 30. Supplemental cash flow information:

(a) Change in non-cash operating working capital:

| | 2020 | 2019 |
|---|---|---|
| Restricted cash | $ (160,780) | $ 339,541 |
| Due from related parties | (3,842,258) | 817,465 |
| Amounts receivable | (3,443,617) | 723,165 |
| Prepaid expenses | (26,390) | 132,435 |
| Amounts payable and other liabilities | (7,714,674) | (1,438,845) |
| | $ (15,187,719) | $ 573,761 |

(b) Supplementary information:

| | 2020 | 2019 |
|---|---|---|
| Interest received (note 24) | $ 2,302,844 | $ 3,133,511 |
| Interest paid (note 29) | 964,099 | 1,145,684 |

## 31. 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 Waterfront Studios Inc. ("TWSI") | Investee, tenant, debtor |
| Toronto Waterfront Studios Development Inc. ("TWSDI") | Investee, debtor |

(In Canadian dollars)

**31. Related parties (continued):**

(a) The City:

During the year ended December 31, 2020, there was one property transferred from the City (note 4(a)). During the year ended December 31, 2019, there was one property transferred to the City (note 4(b)).

The consolidated statement of financial position includes the following balances related to the City:

| | 2020 | 2019 |
|---|---|---|
| Due from related parties (note 6) | $ 5,976,337 | $ 3,152,486 |
| Amounts payable and other liabilities (note 33(b)) | (756,030) | (756,030) |

Amounts related to Housing Now initiatives and City projects underway.

| | 2020 | 2019 |
|---|---|---|
| Security deposit | $ 30,000 | $ 30,000 |
| Recoverable projects costs from the City | 5,933,569 | 3,117,856 |
| Property tax refund | 12,768 | 4,630 |
| | $ 5,976,337 | $ 3,152,486 |

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 the City in its ordinary course of business throughout the year ended December 31, 2020. Transactions, both revenue and expenses with the City, which passed through the consolidated statement of income and comprehensive income during the year were as follows:

| | 2020 | 2019 |
|---|---|---|
| Project management fees (note 23) | $ – | $ 273,250 |

In addition, the Company declared and paid dividends of $25,000,000 to the City during the year (2019 - $25,000,000) (note 18).

(In Canadian dollars)

**31. Related parties (continued):**

(b) Toronto Transit Commission:

The consolidated statement of financial position includes the following balances related to TTC:

| | 2020 | 2019 |
|---|---|---|
| Due from related parties (note 6) | $ – | $ 1,708,860 |

The Company assisted in the development of a property of which the TTC is the occupant and the Company received property consulting fees as well as cost reimbursements for developing the property. The 2019 balance represents the consulting fee and development costs due to the Company as at December 31, 2019. The Company received payment in the amount of $1,451,593 in January and wrote off $257,267 related to historical costs to project investigative costs.

For the year ended December 31, 2020, property consulting income from TTC, which passed through the consolidated statement of income and comprehensive income were as follows:

| | 2020 | 2019 |
|---|---|---|
| Project management fees (note 23) | $ – | $ 50,000 |

(c) CreateTO:

The consolidated statement of financial position includes the following balances related to CreateTO:

| | 2020 | 2019 |
|---|---|---|
| Due from related parties (note 6) | $ 3,176,790 | $ 361,742 |

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 2020 management fees.

(In Canadian dollars)

**31. Related parties (continued):**

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, 2020, allocations from CreateTO, which passed through the consolidated statement of income and comprehensive income were as follows:

| | 2020 | 2019 |
|---|---|---|
| General and administrative expenses (note 27) | $ 7,867,859 | $ 7,786,143 |

(d) Toronto Port Lands Company:

The consolidated statement of financial position includes the following balances related to TPLC:

| | 2020 | 2019 |
|---|---|---|
| Due from related parties (note 6) | $ 11,069 | $ 98,850 |

Pursuant to an agreement between TPLC and the Company entered into in 2014, the Company assisted TPLC in the management and sale of a property in return for 20% of the net proceeds, in addition to costs reimbursement. On August 15, 2019, the remaining parcel was sold and the Company received costs reimbursement of $292,658 and consulting fees of $4,513,146 (note 23(b)). Additional net proceeds adjustment of $58,752 for a parcel sold in 2017 was received in August 2019. The outstanding balance represents a provision for legal fees to be finalized in 2020.

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

(In Canadian dollars)

### 31. Related parties (continued):

The Company had transactions with TPLC in its ordinary course of business throughout the year ended December 31, 2020. Revenue from TPLC which passed through the consolidated statement of income and comprehensive income during the year was as follows:

| | 2020 | 2019 |
|---|---|---|
| Project consulting fees (note 23(b)) | $ – | $ 4,571,898 |

(e) Pinewood Toronto Studios Inc., Toronto Waterfront Studios Inc. and Toronto Waterfront Studios Development Inc.:

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

| | 2020 | 2019 |
|---|---|---|
| Amounts receivable (note 7) | $ 462,985 | $ 433,971 |
| Loans receivable (note 8(a)) | 28,499,342 | 29,406,808 |
| Investment in associates (note 13) | 6,346,986 | 4,524,202 |

The Company had transactions with PTSI and TWSI during the year ended December 31, 2020 and the transactions which passed through the consolidated statement of income and comprehensive income were as follows:

| | 2020 | 2019 |
|---|---|---|
| Rental revenue | $ 1,437,031 | $ 1,475,619 |
| Other income (note 25) | 166,000 | 166,000 |
| Share of net income from investment in associates (note 26) | 1,621,456 | 981,633 |
| Interest income | 962,801 | 1,021,495 |

## 31. Related parties (continued):

(f) 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 managed by CreateTO for a service fee (note 27(a)).

## 32. Affordable housing contribution:

As part of the trailing obligations, the Company was required to assist in the provision of financial assistance to the purchasers of affordable condominium units at a property sold in 2016. During the year, the Company advanced $1,500,000 to Habitat for Humanity for this purpose. The Company does not have the control over the site, and the timing and likelihood of loan repayment cannot be estimated, and for these reasons, the loan was written off.

## 33. Commitments and contingencies:

(a) Trailing obligations:

On December 19, 2017, the Company sold a property to a third-party developer. Conditional to the sale, the purchaser is obligated 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 $500,000 from the non-profit organization.

On October 22, 2020, the Company sold a property to a third-party developer. Conditional to the sale, the purchaser entered into a development agreement with the Company, to deliver affordable housing and a new public park. The Company has entered into a Park Development and Reconveyance Agreement with the purchaser and the City and has committed to spend $1.5 million for above base-park improvements.

(In Canadian dollars)

## 33. Commitments and contingencies (continued):

(b) Future assignment of loans receivable:

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. As a result of the sale, the Company holds a promissory note related to the affordable housing units, in the amount payable of $756,030. The promissory note from the vendor will be forgiven on completion of the units. If the affordable housing units are not delivered, the Company will collect the loan and contribute this to the City for affordable housing.

(c) 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 does not expect they will have a material effect on the Company's business, financial condition or operations.

## 34. 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, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Shareholder's equity | $ 216,442,452 | $ 232,913,122 |
| Debt (note 17) | 28,499,342 | 29,406,808 |
| | $ 244,941,794 | $ 262,319,930 |

The Company manages its capital, taking into account the long-term business objectives of the Company, and achieving its City-building objectives.

### 35. 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 statement 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, 2020, no allowance for doubtful accounts was recorded (2019 - nil) and no bad debt (2019 - nil) was written off to the consolidated statement of income and comprehensive income.

The credit risk exposure related to VTB mortgage receivables are collateralized on the sold properties. The mortgage receivable due from TWSI is collateralized with a leasehold mortgage and $4,000,000 in guarantees from the shareholders of TWSI. The cash and cash equivalents and short-term investments consist of deposits with major commercial banks. It is management's assessment that the credit risk associated with these balances is negligible.

(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 17). The Company is subject to interest rate risk on premium saving account, the interest rate of which is set at prime minus 0.85% per annum as at December 31, 2020 (2019 - $1.58%). A 1% change in the variable interest rate on the average balance for the year would have resulted in an annualized change in interest income of approximately $699,000 (2019 - $698,000).

The amortizable loan receivable due from PTSI is not subject to interest rate risk as the interest rate is fixed at 3.33%. The VTB mortgage receivable from the purchaser is not subject to interest rate risk as the interest rates are fixed at 3.25%.

(In Canadian dollars)

## 35. Financial instruments - risk management (continued):

(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:

| | 2021 to 2022 | 2023 to 2024 | 2025 to 2026 | Thereafter | Total |
|---|---|---|---|---|---|
| Debt | $ 1,969,716 | $ 2,105,172 | $ 1,388,632 | $ 23,035,822 | $ 28,499,342 |

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

## 36. Subsequent events:

(a) Declaration of dividend:

On May 11, 2021, the Board of Directors declared a dividend of $25,000,000 to be paid in 2021.

(b) Investment in associate:

During the first quarter of 2021, the Company made additional cash contributions to TWSDI in the amount of $2,554,674, plus a re-investment of capital of $576,818 to facilitate a construction financing equity requirement.

## 37. Comparative information:

The consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.