

# **Build Toronto Inc.**

Consolidated Financial Statements  
December 31, 2016



May 4, 2017

## **Independent Auditor's Report**

### **To the Shareholder of Build Toronto Inc.**

We have audited the accompanying consolidated financial statements of Build Toronto Inc., which comprise the consolidated balance sheet as at December 31, 2016 and consolidated statements of income and comprehensive income, shareholder's equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Build Toronto Inc. as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants, Licensed Public Accountants**

# Build Toronto Inc.

## Consolidated Balance Sheets

(Canadian \$)	Notes	December 31, 2016	December 31, 2015
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Real estate inventory	5	141,185,530	143,666,932
Pre-acquisition costs	6	2,492,836	2,657,141
Due from related parties	7	2,028,945	2,151,153
Amounts receivable	8	903,871	2,769,368
Prepaid expenses		314,967	532,900
Loans receivable	9	33,403,778	33,403,778
Cash and cash equivalents	10	51,337,613	60,409,421
Restricted cash	11	31,725	58,868
<b>Current assets</b>		<b>231,699,265</b>	<b>245,649,561</b>
<b>Non-current assets</b>			
Investment property	12	14,620,000	14,920,000
Investment in equity accounted investments	13	3,342,061	2,682,828
Investment in joint venture	14	22,423,649	22,639,015
Property, equipment and intangible assets	15	413,575	487,762
Amounts receivable	8	3,072,290	1,351,645
Loans receivable	9	20,630,467	-
<b>Non-current assets</b>		<b>64,502,042</b>	<b>42,081,250</b>
<b>Total assets</b>		<b>296,201,307</b>	<b>287,730,811</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Current liabilities</b>			
Amounts payable and other liabilities	16	4,825,290	3,251,479
Environmental provision	17	9,949,584	518,665
Debt	18	33,406,788	33,406,788
<b>Current liabilities</b>		<b>48,181,662</b>	<b>37,176,932</b>
<b>Non-current liabilities</b>			
Amounts payable and other liabilities	16	1,922,140	-
Environmental provision	17	7,779,466	16,495,926
<b>Non-current liabilities</b>		<b>9,701,606</b>	<b>16,495,926</b>
<b>Total liabilities</b>		<b>57,883,268</b>	<b>53,672,858</b>
Shareholder's equity	19	238,318,039	234,057,953
<b>Total liabilities and shareholder's equity</b>		<b>296,201,307</b>	<b>287,730,811</b>
<b>Commitments and contingencies</b>	32		

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

Approved by board:

*(Signed by) "David Shiner"*

Director

*(Signed by) "Dennis Fotinos"*

Director

## Build Toronto Inc.

### Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2016 and 2015

(Canadian \$)	Notes	2016 \$	2015 \$
<b>Real estate inventory</b>			
Real estate inventory revenue	20	50,291,228	22,460,890
Real estate inventory cost of sales	21	(31,631,833)	(14,191,704)
		18,659,395	8,269,186
<b>Net rental income</b>			
Rental revenue	22	1,979,975	2,667,099
Property operating expenses	23	(1,344,332)	(1,603,240)
		635,643	1,063,859
		19,295,038	9,333,045
<b>Other income and expenses</b>			
Guarantee fee	24	3,219	18,467
Project management fees	25	100,000	300,000
Interest income	26	1,517,816	1,538,875
Income from equity accounted investments	27	443,867	274,867
Fair value gains (losses) on investment property	12	(300,000)	270,000
General and administrative expenses	28	(7,273,890)	(6,630,466)
Project investigative costs		-	13,873
Depreciation and amortization	15	(146,391)	(145,705)
Interest expense	29	(625,340)	(699,217)
Finance costs - Accretion of environmental provision	17	(356,999)	(945,613)
		(6,637,718)	(6,004,919)
<b>Net income and comprehensive income</b>		<b>12,657,320</b>	<b>3,328,126</b>

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, 2016 and 2015

(Canadian \$)	Notes	Common shares	Contributed surplus	Retained earnings	Total Shareholder's equity
		\$	\$	\$	\$
<b>Balance - January 1, 2015</b>		1	210,360,233	35,195,437	245,555,671
Net income for the year		-	-	3,328,126	3,328,126
Transfer of properties from the shareholder	31a	-	174,156	-	174,156
Dividend paid	19b	-	-	(15,000,000)	(15,000,000)
<b>Balance - December 31, 2015</b>		1	210,534,389	23,523,563	234,057,953
Net income for the year		-	-	<b>12,657,320</b>	<b>12,657,320</b>
Transfer of properties from the shareholder	5a, 31a	-	<b>17,537,459</b>	-	<b>17,537,459</b>
Transfer of property to the shareholder	5b, 31a	-	<b>(934,693)</b>	-	<b>(934,693)</b>
Dividend paid	19b	-	-	<b>(25,000,000)</b>	<b>(25,000,000)</b>
<b>Balance - December 31, 2016</b>		<b>1</b>	<b>227,137,155</b>	<b>11,180,883</b>	<b>238,318,039</b>

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

## Build Toronto Inc.

### Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

(Canadian \$)	Notes	2016	2015
		\$	\$
<b>Cash provided by (used in)</b>			
<b>OPERATING ACTIVITIES</b>			
Net income		12,657,320	3,328,126
Items not involving cash:			
Straight-line rent		(258,557)	(258,557)
Deferred lease inducement/escalations amortization		78,371	64,242
Income from equity accounted investments	27	(443,867)	(274,867)
Project investigative costs written back	5d	-	(14,648)
Fair value (gains) losses on investment property	12	300,000	(270,000)
Accretion of environmental provision	17c	356,999	945,613
Non-cash interest income	26	(29,014)	(29,014)
Amortization and depreciation	15	146,391	145,705
Additions to real estate inventory	5c	(11,439,892)	(5,240,044)
Real estate inventory cost of sales	5d, 21	31,631,833	14,196,704
Pre-acquisition costs	6a	(586,008)	(120,268)
Changes in other working capital items	30	(16,413,180)	1,188,154
<b>Total operating activities</b>		<b>16,000,396</b>	<b>13,661,146</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, equipment and intangible assets	15	(72,204)	(98,200)
Contribution to joint venture	14	-	(10,601,287)
Advance to equity accounted investments	13	-	(705,902)
Repayment of TWSI put option funding	13	-	408,729
Repayment of loan receivable		-	2,660,917
Repayment of accrued interest on deferred payment loan receivable		-	187,376
<b>Total investing activities</b>		<b>(72,204)</b>	<b>(8,148,367)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of loan payable		-	(2,660,917)
Repayment of accrued interest on loan payable		-	(187,376)
Payment of dividend	19b	(25,000,000)	(15,000,000)
<b>Total financing activities</b>		<b>(25,000,000)</b>	<b>(17,848,293)</b>
<b>Decrease in cash</b>		<b>(9,071,808)</b>	<b>(12,335,514)</b>
<b>Cash, beginning of year</b>		<b>60,409,421</b>	<b>72,744,935</b>
<b>Cash, end of year</b>	10	<b>51,337,613</b>	<b>60,409,421</b>

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

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 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, 2016. 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. <sup>1</sup>	√		

### 2. 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 ("IASB").

#### b) Basis of presentation

The Company has been identified as another 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.

<sup>1</sup> Build Toronto Holdings (Westwood) Inc. was incorporated on December 21, 2016.



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b) Basis of presentation (continued)

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 2016 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 of transfer. 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 of transfer. Subsequent expenditure is 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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d) Real estate assets (continued)

##### II. Investment property (continued)

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 later of: (i) the time the City declares the property surplus and approves the transfer; and (ii) when the Company completes the environmental risk analysis and accepts the property.

#### 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 share of the underlying assets of an 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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### f) Investment in joint arrangements (continued)

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 licence, 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. Cost includes expenditures that are directly attributable to the acquisition, and expenditures for replacing part of the property and equipment when that cost is incurred if the 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

Revenue from the sale of developed sites and land sold to third parties is recognized when the agreement of purchase and sale is executed, the earnings process is virtually complete, the significant risks and rewards of ownership are transferred to the buyer and the Company does not have a substantial continuing involvement with the property to the degree usually associated with ownership.

The Company recognizes rental revenue using the straight-line method, whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements is accrued as rent receivable, which is included in amounts receivable as straight-line rent receivable.

Other income includes interest and management fees. Interest income is recognized as earned. Management fees are recorded as the services are provided.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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

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

	Classification	Measurement
<b>Financial assets</b>		
Due from related parties	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Amounts payable and other liabilities	Financial liabilities	Amortized cost
Debt	Financial liabilities	Amortized cost

At initial recognition, the Company classifies 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.

#### k) 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statements of 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 income and comprehensive income.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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) 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.

#### p) 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 properties transferred by the City

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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### p) Use of Estimates (continued)

##### IV. Impairment of financial assets (including equity accounted investments) and fair value of financial instruments

At each reporting date, management is required to assess whether its financial assets are impaired. The criteria used to determine whether there is objective evidence of impairment include: (a) significant financial difficulty of the borrower or investee; (b) delinquencies in interest or principal payments from the borrower; and (c) the probability the borrower or investee will enter bankruptcy or other financial reorganization. Assessing fair value of financial instruments requires significant estimates of future cash flows and appropriate discount rates.

##### V. 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.

##### VI. 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.

#### q) 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. Determination of transfer of capitalized costs from pre-acquisition to inventory and investment property

Pre-acquisition costs are incurred by the Company to conduct its due diligence investigation of possible surplus property transfers.

The Company's internal investment committee, comprised of senior management, meets regularly to review the results of the investigation, business case development and the possible impacts of other stakeholder interests while the terms of transfer are negotiated with the City. Once the negotiated terms and conditions of the transfer are agreed upon, implementation of the legal transfer of the property will follow, and the capitalized pre-acquisition costs are then reclassified to the appropriate category of assets after the conveyance.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### q) Critical Judgements (continued)

##### IV. 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.

##### V. 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.

##### VI. 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 later of: (i) the time the City declares the property surplus and approves the transfer; and (ii) when the Company completes the environmental risk analysis and accepts the property. The point at which it is considered probable that the future economic benefits associated with the property will flow to the Company 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.

##### VII. 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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 3. NEW ACCOUNTING STANDARDS ADOPTED IN 2016

#### a) IAS 1, Presentation of Financial Statements (IAS 1)

IAS 1 was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated balance sheets and consolidated statements of net income and comprehensive income should not be aggregated or disaggregated in a manner that obscures useful information, and that disaggregation may be required in the consolidated statements of net income and comprehensive income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

#### b) IAS 16, Property, Plant and Equipment (IAS 16) and IAS 38, Intangible Assets (IAS 38)

The amendments to IAS 16 prohibit entities from using revenue based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

#### c) IFRS 7, Financial Instruments: Disclosures (IFRS 7)

In October 2010, IFRS 7 was amended to enhance disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity's continuing involvement in derecognized financial assets and the offsetting of financial assets and financial liabilities. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

#### d) IFRS 10, Consolidated Financial Statements (IFRS 10) and IAS 28, Investments in Associates and Joint Ventures (IAS 28)

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.

#### e) IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (IFRS 11)

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3, Business Combinations. The Company's adoption of these amendments did not result in a material impact to the consolidated financial statements.



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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#### 4. FUTURE ACCOUNTING POLICY CHANGES

##### a) IAS 7, Statement of Cash Flows (IAS 7)

IAS 7 has been amended to improve presentation and disclosure in financial statements by requiring more disclosures that help users to evaluate changes in liabilities arising from financing activities. The disclosures include:

- I. a reconciliation of liabilities whose cash flows were, or future cash flows would be, classified as financing activities in the statement of cash flows; and
- II. restrictions that affect the decisions of an entity to use cash and cash equivalent balances.

IAS 7 is effective for annual periods beginning on or after January 1, 2017.

##### 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.

##### c) IFRS 9, Financial Instruments (IFRS 9)

This standard, which will replace 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 is currently evaluating the impact of IFRS 9 on its consolidated financial statements; no material impact is expected.

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

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

##### e) IFRS 16, Leases (IFRS 16)

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16 lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 5. REAL ESTATE INVENTORY

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

	Notes	2016	2015
		\$	\$
Balance - Beginning of year		143,666,932	153,865,064
Transfer from pre-acquisition costs	6	750,313	-
Acquisitions - transfers from the shareholder (a)	31a	17,537,459	-
Transfer to the shareholder (b)	31a	(934,693)	-
Development costs (c)		11,338,744	4,913,578
Adjustment to environmental provision	17	792,658	(929,654)
Costs written off to statement of income (d)		(31,965,883)	(14,182,056)
<b>Balance - End of year</b>		<b>141,185,530</b>	<b>143,666,932</b>

- a) During the year ended December 31, 2016, properties with total fair value of \$17,537,459 (Note 31) (2015 - \$nil) were transferred from the shareholder to the Company. The value was based on third-party property-specified appraisals and adjusted for the estimated costs to sell the asset, and represented 24.8% 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 and 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 are no environmental issues associated with these transferred properties and do not anticipate any future liabilities on remediation to ensue.
- b) During the year ended December 31, 2016, the Company returned a property that was transferred from the City in 2014, which has been designated for use as a homeless youth shelter under a 40-year land lease and has a carrying value of \$934,693 (Note 31) (2015 - \$nil). The transfer was recorded as a corresponding decrease of contributed surplus (2015 - \$nil).
- c) The development costs of \$11,439,892 (2015 - \$5,240,044) recorded as a cash outflow for the operating activities in the consolidated statements of cash flows include an amount of \$101,148 (2015 - \$326,466) that was incurred for costs included in the environmental provision.

	Notes	2016	2015
		\$	\$
Development costs		11,338,744	4,913,578
Utilization of environmental provision	17	101,148	326,466
		<b>11,439,892</b>	<b>5,240,044</b>

- d) Breakdown of costs written off to the consolidated statement of income and comprehensive income during the year is as follows:

	Notes	2016	2015
		\$	\$
Real estate inventory cost of sales	21	(31,965,883)	(14,196,704)
Project investigative costs		-	14,648
		<b>(31,965,883)</b>	<b>(14,182,056)</b>

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**6. PRE-ACQUISITION COSTS**

	Notes	2016	2015
		\$	\$
Balance - Beginning of year		<b>2,657,141</b>	2,536,873
Additions (a)		<b>735,571</b>	417,181
Transfer to related party (a)		<b>(149,563)</b>	(296,913)
Transfer to real estate inventory	5	<b>(750,313)</b>	-
Balance - End of year		<b>2,492,836</b>	2,657,141

- a) During the year ended December 31, 2016, the Company capitalized \$735,571 (2015 - \$417,181) of investigative and development costs related to properties that have not yet been acquired by the Company.

The additions, reduced by the transfer to the related party amount of \$149,563 (2015 - \$296,913), are recorded as a cash outflow for the operating activities in the consolidated statements of cash flows.

	2016	2015
	\$	\$
Additions	<b>735,571</b>	417,181
Costs recovered from related party	<b>(149,563)</b>	(296,913)
	<b>586,008</b>	120,268

**7. DUE FROM RELATED PARTIES**

	Notes	2016	2015
		\$	\$
Due from City (a)	31a	<b>1,570,668</b>	1,340,194
Due from Toronto Port Lands Company (TPLC)	31b	<b>458,277</b>	810,959
Due from related parties		<b>2,028,945</b>	2,151,153

- a) The balance is comprised of \$600,000 (2015 - \$600,000) held by the City in lieu of a servicing letter of credit and a deposit of \$30,000 (2015 - \$30,000) held by the City in lieu of a letter of credit for another site, net chargebacks owed to the City of \$112,923 (2015 - owed by the City of \$272,669) that remain outstanding at year-end and an amount of \$1,053,591 due from (2015 - \$437,525) Waterfront Secretariat, a division of the City.

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**8. AMOUNTS RECEIVABLE**

	Notes	2016	2015
		\$	\$
Recoverable financing costs and loan interest		<b>92,045</b>	20,767
Interest differential loan (a)		<b>346,931</b>	317,917
Deferred rent (b)		<b>1,033,728</b>	1,141,961
Total due from PT Studios Inc. (PTSI)	31e	<b>1,472,704</b>	1,480,645
Rent receivable (c)		-	24,460
Purchase price adjustment (d)		<b>1,806,010</b>	1,806,010
HST refund		<b>180,389</b>	91,680
Interest receivable (e)		<b>339,848</b>	426,574
Deferred income (f)		-	200,000
Retainer and other recoverable (g)		<b>136,800</b>	-
Other		<b>40,410</b>	91,644
Total amounts receivable		<b>3,976,161</b>	4,121,013
Less: Current portion		<b>(903,871)</b>	(2,769,368)
Non-current amounts receivable		<b>3,072,290</b>	1,351,645

- a) The balance of \$346,931 (2015 - \$317,917) represents the present value of deferred loan interest due in 2039.
- 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%.
- c) In 2015, the amount was related to licence fees and recoveries from various tenants.
- d) Amount relates to additional profit participation from sales of a property that took place in 2010.
- e) The interest receivable of \$339,848 (2015 - \$426,574) represents interest receivable on GIC and short-term deposit investments.
- f) During the year, the Company received the full amount of the interest free deferral of proceeds of \$200,000 held, pending the installation of services on a parcel of land. The work was completed and the letter of credit securing the payment was cancelled. The Company received an additional density payment of \$50,000 which it recorded as sale revenue in the year.
- g) The Company sold a property in September 2016 and a retainer of \$100,000 (2015 - \$nil) was set aside pursuant to an escrow agreement, and the remaining balance of \$36,800 pertains to realty tax and maintenance costs recoverable from the purchaser.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 9. LOANS RECEIVABLE

	Notes	2016	2015
		\$	\$
Loan receivable – PTSI (a)	18, 31e, 37c	<b>33,403,778</b>	33,403,778
Vendor-take-back mortgage (b)		<b>17,118,437</b>	-
Promissory notes (c)		<b>3,512,030</b>	-
Total		<b>54,034,245</b>	33,403,778
Less: Current portion		<b>(33,403,778)</b>	(33,403,778)
Non-current loans receivable		<b>20,630,467</b>	-

- a) In 2011, the Company assisted TWSI in restructuring debt by obtaining a new long-term facility with a government agency (Note 18). 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 agreement provided for conversion of the facility to a 25-year amortizable debenture which will take effect on March 15, 2017 and the new terms of the converted debt facility are disclosed in Note 37(c). The Company drew \$33,406,788 and advanced \$33,403,778 to PTSI. The terms of current facility have been extended while the terms of the amortizable debenture are finalized. The interest rate as at December 31, 2016, of 1.86% (2015 – 1.80%) is reset monthly at the government agency's average monthly cost of funds. The loan is secured by a leasehold mortgage, shareholder guarantees, and a first charge against the assets of PTSI.
- b) The VTB mortgage was issued in connection with a property sale transaction in the year with proceeds of \$26,000,968. The repayment date can be extended to beyond one year from the charge date or until that time when the mortgagor has finalized its construction financing or met its construction lender's pre-sales threshold. The VTB mortgage has an interest rate of 4.75% per annum, payable in arrears and the balance includes accrued interest of \$251,733. The VTB mortgage has been classified as non-current as its maturity date will be on September 7, 2017 but highly probable to be extended for a minimum of another two six-month periods.
- 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 5% per annum, payable in arrears, from and after their maturity dates. The notes secure obligations of the Purchaser to build the shell portion of the building for a community recreational facility and the contracted space for affordable housing. The discharge date of these notes will not be earlier than year 2019 and have been classified as non-current.

### 10. CASH AND CASH EQUIVALENTS

	2016	2015
	\$	\$
Cash and cash equivalents		
GICs - various maturities within one year but redeemable after 30 days of issue without penalty	<b>41,000,000</b>	51,975,000
Short-term deposits	<b>4,995,102</b>	4,410,000
Cash	<b>5,342,511</b>	4,024,421
	<b>51,337,613</b>	60,409,421

### 11. RESTRICTED CASH

	2016	2015
	\$	\$
Restricted cash	<b>31,725</b>	58,868

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

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**12. INVESTMENT PROPERTY**

	2016	2015
	\$	\$
Land and land improvements – Film studio		
Balance - Beginning of year	14,920,000	14,650,000
Net gains (losses) in fair value	(300,000)	270,000
	<b>14,620,000</b>	<b>14,920,000</b>

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 18).

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 during the year ended December 31, 2016.

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%. If the discount rate were to increase by 25 basis points (bps), the value of investment property would decrease from \$14,620,000 to \$13,660,000. If the discount rate were to decrease by 25 bps, the value of the investment property would increase from \$14,620,000 to \$15,700,000.

**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 valuers 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 2016, the Company utilized an external valuation prepared at December 31, 2016 for the film studio investment property.

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, and reviewed with the Finance, Audit and Risk Management Committee (FARMC) at least annually.

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

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 13. INVESTMENT IN TORONTO WATERFRONT STUDIO INC. AND TORONTO WATERFRONT STUDIOS DEVELOPMENT INC.

The Company has classified its 20% interests, held through BTHOI, in Toronto Waterfront Studios Inc. (TWSI) and Toronto Waterfront Studios Development Inc. (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.

	TWSDI		TWSI	
	2016	2015	2016	2015
	\$	\$	\$	\$
Balance - Beginning of year	<b>(65,658)</b>	(30,733)	<b>2,748,486</b>	2,021,591
Advances (a)	-	-	-	705,902
Repayment of TWSI Put (b)	-	-	-	(408,729)
Share of net income (loss) (Note 27)	<b>(41,380)</b>	(34,925)	<b>700,613</b>	429,722
Balance - End of year	<b>(107,038)</b>	(65,658)	<b>3,449,099</b>	2,748,486

- a) During the year ended December 31, 2016, there were no advances made to TWSI (2015 - \$705,902).
- b) BTHOI's obligation to fund its 20% share of a provision to purchase 19.85% of the shares of another investor in Pinewood (the "TWSI Put") expired in August 2015. A refund of \$408,729, representing all funds contributed, was received in December 2015.

For the years ended December 31, 2016 and December 31, 2015, TWSI and TWSDI reported the following financial positions and results from operations:

	TWSDI		TWSI	
	2016	2015	2016	2015
	\$	\$	\$	\$
Current assets	<b>11,348</b>	20,804	<b>12,463,020</b>	7,138,283
Non-current assets	<b>5,639,508</b>	5,350,060	<b>42,104,205</b>	44,088,560
Current liabilities	<b>6,686,042</b>	6,199,148	<b>47,655,118</b>	35,218,872
Non-current liabilities	-	-	<b>1,412,872</b>	14,011,803
Revenue	-	-	<b>13,493,506</b>	11,561,964
Net income (loss) from continuing operations	<b>(206,902)</b>	(174,625)	<b>3,503,067</b>	2,148,610
Net income (loss) and total comprehensive income (loss)	<b>(206,902)</b>	(174,625)	<b>3,503,067</b>	2,148,610

The Company's 20% share of income from TWSI and TWSDI for 2016 is \$659,233 (2015 - \$394,797).

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.

The investment in equity accounted investments includes \$2,610,940 (2015 - \$2,610,940) advanced to TWSI and TWSDI. The rate of interest and the repayment for this advance is subject to approval of the Board of Directors of TWSI. The amount is not expected to be repaid within the year.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 14. JOINT ARRANGAEMENTS

#### a) Investment in joint venture

	Notes	2016	2015
		\$	\$
Balance - Beginning of year		22,639,015	12,157,658
Contributions		-	10,601,287
Share of net loss	27	(215,366)	(119,930)
Balance - End of year		22,423,649	22,639,015

BTTHI 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.

In 2015, the Company fulfilled its contractual obligations by funding equity contributions of \$10,601,287.

Name	Principal activity	Location	Ownership interest (%)	
			2016	2015
120-130 Harbour Street Partnership	Inventory	Toronto, Ontario	35	35

For the years ended December 31, 2016 and December 31, 2015, the Partnership reported the following financial positions and results from operations:

	2016	2015
	\$	\$
Cash and cash equivalents	936,761	1,057,476
Current assets	29,907,491	47,910,353
Non-current assets	149,782,127	99,568,095
Total current liabilities	18,651,786	9,221,506
Non-current liabilities	108,057,781	84,782,274
Loss from continuing operations	615,332	600,659
Net loss and total comprehensive loss	615,332	600,659

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. The Partnership has incurred cumulative losses of \$11,083,188 (2015 - \$10,467,856) as at December 31, 2016 of which \$10,747,892 (2015 - \$10,347,926) have been allocated to the other partner.



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 14. JOINT ARRANGAEMENTS (CONTINUED)

#### 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 32(d)).

Name	Principal activity	Location	Ownership interest (%)	
			2016	2015
Ordnance/ Strachan	Inventory	Toronto, Ontario	50	50

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

	Leasehold improvements \$	Furniture and fixtures, office equipment and software licence \$	Computer equipment \$	Total \$
		(a)	(a)	
Balance – December 31, 2015				
Cost	831,508	111,218	110,780	1,053,506
Accumulated depreciation and amortization	(467,231)	(63,335)	(35,178)	(565,744)
	364,277	47,883	75,602	487,762
Opening net book value - January 1, 2015	445,133	63,334	26,800	535,267
Additions	-	24,070	74,130	98,200
Less: Depreciation and amortization	(80,856)	(39,521)	(25,328)	(145,705)
Ending net book value – December 31, 2015	364,277	47,883	75,602	487,762
Opening net book value - January 1, 2016	364,277	47,883	75,602	487,762
Additions	-	10,890	61,314	72,204
Less: Depreciation and amortization	(80,857)	(28,011)	(37,523)	(146,391)
Ending net book value – December 31, 2016	283,420	30,762	99,393	413,575
Balance – December 31, 2016				
Cost	831,508	99,336	138,204	1,069,048
Accumulated depreciation and amortization	(548,088)	(68,574)	(38,811)	(655,473)
	283,420	30,762	99,393	413,575

- a) During the year ended December 31, 2016, fully amortized furniture and fixtures and computer equipment totalling \$22,772 and \$33,890 respectively (2015 – fully amortized furniture and fixtures and computer equipment totalling \$453,018 and \$40,192 respectively) were removed from the Company's books.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 16. AMOUNTS PAYABLE AND OTHER LIABILITIES

	2016	2015
	\$	\$
Trade payables - general	2,052,190	888,603
Accruals (a)	4,304,264	1,850,435
Total payables and accrued liabilities	6,356,454	2,739,038
Deferred lease inducement	191,401	246,073
Deferred lease escalations	82,931	106,631
Revenue received in advance	-	84,894
Construction holdbacks	116,644	74,843
Total	6,747,430	3,251,479
Less: Current portion	(4,825,290)	(3,251,479)
Non-current amounts payable and other liabilities	1,922,140	-

- a) Amount includes accruals of \$1,922,140 (2015 - \$nil) in connection with the sale of a property during the period which are expected to be utilized three to four years from the date of the sale transaction.

### 17. 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	2016	2015
		\$	\$
Balance - Beginning of period		17,014,591	17,325,098
Adjustment to real estate inventory (a)	5	792,658	(929,654)
Utilized in period (b)	5c	(101,148)	(326,466)
Accretion (c)		356,999	945,613
Costs written off to statement of income (d)	21	(334,050)	-
Total - End of period		17,729,050	17,014,591
Less: Current portion		(9,949,584)	(518,665)
Non-current environmental provision		7,779,466	16,495,926

- a) In 2016, the provision was increased by \$792,658 (2015 – decreased by \$929,654) 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, 2016, environmental remediation costs of \$101,148 (2015 - \$326,466) were incurred.
- c) The Company measures the environmental provision at net present value with a discount rate which reflects the shareholder's WACC of 4.3% (2015 – 5.8%). During the year ended December 31, 2016, an accretion amount of \$356,999 (2015 - \$945,613) was recognized as financing cost in the consolidated net income and comprehensive income.
- d) A property was sold during the year and the provision of \$334,050 (2015 - \$nil) was written off to the statement of income.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 18. DEBT

	Notes	2016	2015
		\$	\$
Total Debt	9a, 37c	<b>33,406,788</b>	33,406,788

As mentioned in Note 9, 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. The Company's ability to fix the interest rate on the new facility within the first three years of the term has been extended and is reset monthly to the government agency's average monthly cost of funds borrowing rate, currently at 1.86% (2015- 1.80%). This remains an interest-only facility until March 15, 2017 when the fixed-rate amortizable loan facility will take effect and the new terms of the converted debt facility are disclosed in Note 37(c).

The loan is secured by the assets and corporate guarantees of BTHOI, the future leasehold charge related to the land lease on additional expansion lands to be developed, the Company and the common shares of PTSI.

#### a) Construction financing

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 will utilize the facility in 2017 and the borrowed amount is due on July 31, 2018 if not extended by the lender.

### 19. SHAREHOLDER'S EQUITY

- a) Common share - As at December 31, 2016, one (2015 - 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, 2016 (2015 - \$15 million).

### 20. REAL ESTATE INVENTORY REVENUE

The Company had the following sales during the year:

	2016	2015
	\$	\$
Real estate inventory revenue	<b>50,291,228</b>	22,460,890

During the year ended December 31, 2016, the Company sold four inventory properties to third parties for total proceeds of \$50,241,228 (2015 - \$22,460,890) for a combination of cash and loans receivable. In addition, the Company received additional profit participation of \$50,000 (2015 - \$nil) from the sale of a property that took place in September 2012 (Note 8(f)).

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 21. REAL ESTATE INVENTORY COST OF SALES

The real estate inventory cost of sales is comprised as follows:

	Notes	2016	2015
		\$	\$
Land		22,771,562	6,555,000
Capitalized costs		8,178,224	7,403,419
Legal and commissions		1,016,097	238,285
Real estate inventory cost of sales	5d	31,965,883	14,196,704
Reversal of environmental provision	17d	(334,050)	-
Legal and commissions		-	(5,000)
<b>Total real estate inventory cost of sales</b>		<b>31,631,833</b>	<b>14,191,704</b>

### 22. RENTAL REVENUE

Rental revenue is comprised as follows:

	2016	2015
	\$	\$
Leases	517,114	517,114
Licences	189,900	631,131
Recoverable operating costs and property taxes	1,272,961	1,518,854
<b>Total rental revenue</b>	<b>1,979,975</b>	<b>2,667,099</b>

### 23. PROPERTY OPERATING COSTS

Property operating costs are comprised as follows:

	Notes	2016	2015
		\$	\$
Utilities, repairs and maintenance and security		1,386	36,653
Insurance		25,166	40,413
Property taxes	31a	1,271,244	1,526,174
Other non-recoverable operating costs		46,536	-
<b>Total operating costs</b>		<b>1,344,332</b>	<b>1,603,240</b>

### 24. GUARANTEE FEE

	Notes	2016	2015
		\$	\$
Guarantee fee	31e	3,219	18,467

To assist PTSI in securing the convertible loan facility, the Company provides additional asset guarantees as required by the lender. The guarantee fee which is paid annually on the anniversary date of the loan starting March 18, 2011 is 1% of the 80% of the additional asset value and this rate reduces by 50% each year until the 5th anniversary.

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**25. PROJECT MANAGEMENT FEES**

	Notes	2016	2015
		\$	\$
Bridge and path project (a)	31a	100,000	290,000
Other		-	10,000
<b>Total project management fees</b>		<b>100,000</b>	<b>300,000</b>

- 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.

**26. INTEREST INCOME**

	2016	2015
	\$	\$
Investments	503,055	608,764
Mortgage receivable interest	312,231	170,194
Loan interest	652,781	724,848
Bank interest income	48,886	34,813
Other	863	256
<b>Total interest income</b>	<b>1,517,816</b>	<b>1,538,875</b>
Deduct:		
Amortization of interest differential loan discount	(29,014)	(29,014)
<b>Total amortization of non-cash interest income</b>	<b>(29,014)</b>	<b>(29,014)</b>
Change in accrued mortgage receivable interest	(251,733)	-
Change in accrued loans receivable interest	5,397	295,811
Change in GIC and short-term deposits interest accrued	86,726	(276,291)
<b>Cash interest received</b>	<b>1,329,192</b>	<b>1,529,381</b>

- a) 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. INCOME FROM EQUITY ACCOUNTED INVESTMENTS**

	Notes	2016	2015
		\$	\$
TWSDI	13	(41,380)	(34,925)
TWSI	13	700,613	429,722
	31e	659,233	394,797
120-130 Harbour Street Partnership	14	(215,366)	(119,930)
<b>Income from equity accounted investments</b>		<b>443,867</b>	<b>274,867</b>

**Build Toronto Inc.**  
**Notes to Consolidated Financial Statements**

December 31, 2016

**28. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative costs consist of the following:

	2016	2015
	\$	\$
Salaries and benefits	5,668,537	5,224,453
Office services	454,884	448,103
Office occupancy	658,593	635,758
Professional fees	388,026	220,559
Marketing and promotion	103,850	101,593
<b>Total general and administrative expenses</b>	<b>7,273,890</b>	<b>6,630,466</b>

**29. INTEREST EXPENSE**

	2016	2015
	\$	\$
Interest expense incurred on debt	622,483	695,890
Other	2,857	3,327
<b>Total finance costs</b>	<b>625,340</b>	<b>699,217</b>
Add (deduct):		
Change in debt accrued interest	(1,419)	105,284
<b>Cash interest paid</b>	<b>623,921</b>	<b>804,501</b>

**30. SUPPLEMENTAL CASH FLOW INFORMATION**

	2016	2015
	\$	\$
Decrease in restricted cash	27,143	8,274
Decrease in due from related parties	122,208	173,777
Decrease in amounts receivable	432,423	570,139
Decrease (increase) in prepaid expenses	217,933	(317,599)
(Increase) decrease in loans receivable	(20,630,467)	1,589,778
Increase (decrease) in amounts payable and other liabilities	3,417,580	(836,215)
<b>Changes in non-cash working capital</b>	<b>(16,413,180)</b>	<b>1,188,154</b>

**a) Supplementary information**

	Notes	2016	2015
		\$	\$
Interest received during the year	26	1,329,192	1,529,381
Interest paid during the year	29	623,921	804,501

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 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
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
Directors	directors
Key management	key management
Ontario Municipal Employees Retirement System (OMERS)	post-employment benefit plan

#### a) The City

During the year ended December 31, 2016, the shareholder transferred properties to the Company which at the time of the transfer had a fair value of \$17,537,459 (Note 5(a)) (2015 - \$nil), and the transfer was recorded with a corresponding increase of contributed surplus. This was offset by a transfer of a property to the Shareholder with a carrying value of \$934,693 (note 5(b)) (2015 - \$nil) pursuant to an agreement made in 2014, resulting in a corresponding decrease of the contributed surplus. In 2015, there were no transfers of properties from the shareholder to the Company, the increase in the contributed surplus of \$174,156 was the result of the additional proceeds transferred to the Company by TPLC.

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

	Notes	2016	2015
		\$	\$
Real estate inventory (I)		<b>1,868,438</b>	895,176
Pre-acquisition costs (I)		<b>236,972</b>	-
Due from related parties (II)	7	<b>1,570,668</b>	1,340,194
Amounts payable and other liabilities		<b>(858,451)</b>	(341,812)

- I. Amounts relate to capitalized application and permit fees, development charges and realty taxes.
- II. Balance is comprised of amounts of \$517,077 (2015 - \$902,669) and \$1,053,591 (2015 - \$437,525) due from the City and Waterfront Secretariat, a division of the City, respectively.



# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 31. RELATED PARTIES (CONTINUED)

#### a) The City (continued)

The Company had transactions with the City in its ordinary course of business throughout the year. 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:

	Notes	2016	2015
		\$	\$
Project management fees	25	100,000	300,000
Real estate inventory cost of sales		(1,145,507)	(1,043,065)
Property taxes	23	(1,271,244)	(1,526,174)
General and administrative expenses		(191,349)	(29,396)

In addition, the Company declared and paid dividends of \$25 million to the City during the year (2015 - \$15 million).

#### b) Toronto Port Lands Company

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

	Notes	2016	2015
		\$	\$
Due from related parties	7	458,277	810,959

The Company received repayment of \$782,747 (2015 - \$nil) and incurred recoverable costs of \$430,065 during the year ended December 31, 2016. The outstanding balance of \$458,277 relates to a property for which the Company is providing consulting and property management services pursuant to an agreement entered into in 2014.

There is no set term of repayment of this account balance and no interest is being charged to TPLC.

In June 2011, the Company provided a loan on TPLC's behalf in the amount of \$3,660,917 to TWSI and set up a loan payable with identical terms with TPLC. In June 2015, TWSI fully repaid the loan and interest and in turn, the Company fully repaid TPLC. Loan interest that passed through the consolidated statement of income and comprehensive income was as follows:

	2016	2015
	\$	\$
Interest expense	-	(89,305)

#### c) Toronto Transit Commission

The Company had transactions with the TTC in its ordinary course of business throughout the year. The consolidated statements of financial position include the following balances related to the TTC:

	2016	2015
	\$	\$
Real estate inventory	1,000	1,000

Transactions with the TTC passed through the consolidated statements of income and comprehensive income during the year were as follows:

	2016	2015
	\$	\$
Recoverable property taxes	201,868	330,698

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 31. RELATED PARTIES (CONTINUED)

#### d) Toronto Hydro-Electric Systems Limited

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

	2016	2015
	\$	\$
Real estate inventory	<b>264,507</b>	118,418

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

Transactions with the THSL passed through the consolidated statements of income and comprehensive income during the year were as follows:

	2016	2015
	\$	\$
Property operating expenses	-	(33,857)

#### e) 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	2016	2015
		\$	\$
Amounts receivable	8	<b>1,472,704</b>	1,480,645
Loans receivable	9a, 37c	<b>33,403,778</b>	33,403,778
Investment in equity accounted investments (I)	13	<b>3,342,061</b>	2,682,828
Amounts payable and other liabilities		-	3,219

I. The Company, through BTHOI, holds 20% equity interests in TWSI and TWSDI (Note 13). 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. At December 2009, the Company purchased TWSI's debt, and through a series of transactions, refinanced the loan on March 18, 2011 with a government agency at a favourable rate and provided the Company's corporate guarantee, for which a guarantee fee is charged. The Company's debt as described in Note 18 is a result of the restructuring and assistance provided by the Company to TWSI.

The Company had transactions with PTSI and TWSI throughout the year and the revenue which passed through the consolidated statements of income and comprehensive income was as follows:

	Notes	2016	2015
		\$	\$
Rental revenue and recoverable property taxes		<b>1,586,490</b>	1,585,640
Share of net income from equity from equity accounted investments	27	<b>659,233</b>	394,797
Guarantee fee	24	<b>3,219</b>	18,467
Interest income		<b>711,936</b>	791,162

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 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. The Company's key management personnel include the members of the Board of Directors, the President and Chief Executive Officer, CFO and the Senior Vice Presidents. The compensation paid or payable to the key management and directors is shown below:

	2016	2015
	\$	\$
Salaries and other short-term employee benefits and termination benefits	1,243,091	1,170,762
Directors' fees	87,500	132,000
	<b>1,330,591</b>	<b>1,302,762</b>

#### g) Post-employment benefit plan

All of the Company's permanent employees participate in a pension plan through OMERS. The Company makes contributions to the 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 current service contributions to the OMERS pension plan for the year ended December 31, 2016, which are expensed, totalled \$511,891 (2015 - \$448,327) and are included in salaries and employee benefits expense in the consolidated statements of income and comprehensive income.

The Company's liability related to the plan is not greater than the current annual contribution amounts due. The expected contributions to the plan for 2017 are estimated to be \$561,601.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 32. COMMITMENTS AND CONTINGENCIES

#### a) Operating Leases

Future minimum annual lease payments on the 200 King Street West office are as follows:

	\$
2017	310,750
2018	310,750
2019	310,750
2020	155,375
	<u>1,087,625</u>

During the year ended December 31, 2016, the Company paid \$310,750 (2015 - \$282,500) in minimum lease payments with respect to the lease of the office premise, and operating lease payments of \$17,439 (2015 - \$17,606) for office equipment, which have been included in the net income for the year.

#### b) Investment in TWSI and TWSDI

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 20% of its equity ownership of the cash requirements. For the year ended December 31, 2016, BTHOI made no funding to TWSI (2015 - \$705,902) and TWSDI (2015 - \$nil). The Company's future commitments are determined through ongoing negotiations with the investees and investors.

The TWSI Put Option Agreement expired on June 24, 2015, and as a result BTHOI is no longer contingently liable to fund its share of the provision to purchase 19.85% of the shares of one of the other investors of TWSI. In December 2015, BTHOI received the full repayment of the TWSI Put Option monies in the amount of \$408,729 which it contributed over the years.

#### c) Investment in joint operation

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.

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 \$1,575,000 to be incurred in the future.

#### d) Trailing obligations

Pursuant to a sale of land in December 2012, the Company was liable to complete the installation of sanitary sewers and water mains servicing the property sold. The project was substantially complete in August 2014. The Company is responsible to address any deficiencies during the warranty period of twenty-four months. As at December 31, 2016, minor deficiencies, estimated not to exceed \$35,000 remain to be addressed in early 2017.

#### e) Loan guarantee

On June 24, 2016, the Company agreed to assist a not-for-profit tenant which was relocated from a property sold in October 2015 by becoming a guarantor for a bank loan in the maximum amount of \$1,500,000. The facility is a non-revolving bridge loan, with an interest rate at prime plus 0.75% per annum with interest payable monthly, accessible on or before July 31, 2016 and matures on July 31, 2017 (Note 37(b)).

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 32. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### f) Future assignment of loans receivable

On July 22, 2016, the Company sold a property to a third-party developer and conditional to the sale, the developer has to deliver a certain number of affordable housing units when the construction is complete. The Company granted the purchaser a promissory note of \$400,000 which has been designated for the use as second mortgage financing for the purchasers of those units, and the commitment was recorded directly as a cost of sale in the Company's book.

On August 17, 2016, the Company sold a property to another third-party developer and conditional to the sale, the Company granted the purchaser a VTB mortgage of \$1,000,000 which has been designated as the Company's contribution to an affordable rental housing program, and the commitment was recorded directly as a cost of sale in the Company's book and details of the affordable rental housing program are in the process of being finalized.

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. The obligations are securitized by promissory note of \$2,756,000 for the community centre and \$756,030 for affordable housing which will be assigned to third parties once the developer has met the requirements. The cost of the new community recreational centre is to be funded by the City, and the Company has been directed by the City to assign the loan to the future owner of the community centre, which will then use to pay the developer for the construction costs of the shell of the facility. 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.

#### g) 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.

### 33. 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, 2016 and 2015.

	Notes	2016	2015
		\$	\$
Shareholder's equity		<b>238,318,039</b>	234,057,953
Debt	18, 37c	<b>33,406,788</b>	33,406,788
		<b>271,724,827</b>	267,464,741

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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

### 34. 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, 2016, no allowance for doubtful accounts was recorded (2015 - \$nil) and no bad debt (2015 - \$nil) was written off to the consolidated statements of income and comprehensive income.

The loan 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 VTB mortgage of \$17,118,437 (Note 9(b)) and promissory notes, totalling \$3,512,030 (Note 9(c)) due from the third-party developer are 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 exposed to interest rate risk through its loan payable, the interest rate of which is based on the government agency's average borrowing rate until the rate is fixed, and its cash balances. As at December 31, 2016, 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 \$334,068. Any increase would be passed along to TWSI as loan interest receivable. The Company was not impacted by the change in prime rate in 2016 as it has not started using the construction financing facilities.

The deferred rent mortgage due from Pinewood is not subject to interest rate risk as the interest rate is fixed at 5.6%. The VTB mortgage interest rate is fixed at 4.75% until April 2018 when the interest rate will become 4.75% plus the difference between the prime and 4.75% so that a 1% change in the prime would have resulted in an annualized change in interest income of approximately \$168,667.

#### 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. As at December 31, 2016, all obligations of the Company discussed in Note 18 are due within one year.

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

	Payments Due by Year				Total
	2017 to 2018	2019 to 2020	2021 to 2022	Thereafter	
	\$	\$	\$	\$	\$
Debt	33,406,788	-	-	-	33,406,788

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.

# Build Toronto Inc.

## Notes to Consolidated Financial Statements

December 31, 2016

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### 35. FINANCIAL INSTRUMENTS – FAIR VALUE

The Company's financial instruments, consisting of due from related parties, amounts receivable, current and non-current loan receivables, cash and cash equivalents, restricted cash, amounts payable and other liabilities and current debt, are carried at amortized cost which approximates fair value due to their short-term nature.

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.

### 36. PRIOR YEAR'S FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's financial statement presentation.

### 37. SUBSEQUENT EVENTS

#### a) Declaration of dividend

On May 4, 2017, the Board of Directors declared a dividend of \$25 million to be paid in 2017.

#### b) Loan Guarantee

The loan mentioned under loan guarantee in Note 32(e) was repaid in full by the past not-for-profit tenant at the beginning of 2017, thus releasing the Company's contingent obligation as a loan guarantor.

#### c) Renewed debt facility

On March 10, 2017, the Company renewed its existing loan facility with the government agency (Note 18). Under the renewed agreement, the Company paid down \$1,700,000 of its current debt, and converted the remaining principal balance of \$31,706,788 into a 10-year term mortgage with a 25-year amortization period at an interest rate of 3.33% effective March 15, 2017. The loan agreement that the Company has with PTSI (Note 9) has been renewed in tandem with this negotiated loan facility, i.e. a repayment of \$1,700,000, the remaining principal balance of \$31,706,788 with a term of 10 years and an amortization period of 25 years, effective March 15, 2017.

### 38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on May 4, 2017.