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

Consolidated Financial Statements
**Three months ended March 31, 2017**

(Unaudited)

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

| As at | Notes | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | 5 | 340,372,382 | 340,195,847 |
| Restricted cash and investments | | 16,020,111 | 15,974,013 |
| Other non-current assets | 6 | 3,101,872 | 2,890,444 |
| Total non-current assets | | 359,494,365 | 359,060,304 |
| **Current assets** | | | |
| Amounts receivable | 7, 12 | 4,229,599 | 4,611,413 |
| Prepaid expenses | | 423,867 | 130,625 |
| Short-term investments | 8 | 11,050,000 | 7,000,000 |
| Cash and cash equivalents | 9 | 16,651,329 | 20,615,354 |
| Total current assets | | 32,354,795 | 32,357,392 |
| **Total assets** | | 391,849,160 | 391,417,696 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Non-current liabilities** | | | |
| Tenants' deposits and prepaid rents | 11 | 7,967,720 | 7,967,720 |
| Total non-current liabilities | | 7,967,720 | 7,967,720 |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 10, 12(a) | 4,551,448 | 5,750,976 |
| Prepaid rents | 11 | 161,342 | 365,101 |
| Total Current liabilities | | 4,712,790 | 6,116,077 |
| **Total liabilities** | | 12,680,510 | 14,083,797 |
| **Shareholder's equity** | | 379,168,650 | 377,333,899 |
| **Total liabilities and shareholder's equity** | | 391,849,160 | 391,417,696 |
| **Commitments and contingencies** | 19, 20 | | |

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

**Approved by the Board of Directors**

_____________________________ Director _______________________________ Director

**City of Toronto Economic Development Corporation**
**c.o.b. Toronto Port Lands Company**
Consolidated Statement of Shareholder's Equity

| | Notes | Number of Shares | Capital | Retained Earnings | Total Shareholder's Equity |
|---|---|---|---|---|---|
| | | | $ (note 1) | $ | $ |
| Balance, as at December 31, 2015 | | 1 | 1 | 369,951,765 | 369,951,766 |
| Net income | | | | 14,272,426 | 14,272,426 |
| Dividend related to the incubator program | 12(a), 17 | | | (1,890,293) | (1,890,293) |
| Dividend | | | | (5,000,000) | (5,000,000) |
| Balance, as at December 31, 2016 | | 1 | 1 | 377,333,898 | 377,333,899 |
| Net income | | | | 1,834,751 | 1,834,751 |
| Balance, as at March 31, 2017 | | 1 | 1 | 379,168,649 | 379,168,650 |

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

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

| For the three months ended March 31 | Notes | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| **Net property income** | | | |
| Revenue from investment properties | 14 | 3,974,911 | 4,176,409 |
| Investment property operating expenses | 15, 12(a) | 1,069,756 | 1,443,968 |
| | | 2,905,155 | 2,732,441 |
| **Expenses** | | | |
| General and administrative | 16, 12(b)(ii) | 812,775 | 883,076 |
| Environmental monitoring | | 6,055 | 4,446 |
| Amortization | | 399,522 | 356,484 |
| | | 1,218,352 | 1,244,006 |
| **Income before the following** | | 1,686,803 | 1,488,435 |
| **Other income (expenses)** | | | |
| Interest and investment income | | 147,948 | 124,210 |
| Invest Toronto grant | 12(b), 18 | - | (443,614) |
| | | 147,948 | (319,404) |
| **Net income and comprehensive income** | | 1,834,751 | 1,169,031 |

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

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

| **For the three months ended March 31** | **Notes** | **2017** | **2016** |
|---|---|---|---|
| | | $ | $ |
| **OPERATING ACTIVITIES** | | | |
| Net income | | 1,834,751 | 1,169,031 |
| Items not affecting cash | 13(a) | 211,240 | 185,977 |
| Net change in operating assets and liabilities | 13(b) | (1,110,956) | (800,884) |
| **Cash provided by operating activities** | | 935,035 | 554,124 |
| **INVESTING ACTIVITIES** | | | |
| Sale (Purchase) of short-term investments | | (4,050,000) | - |
| Increase in restricted cash | | (46,098) | (51,573) |
| Increase in other non-current assets | | (266,985) | (379,928) |
| Additions to investment properties | | (535,977) | (157,455) |
| **Cash provided by (used in) investing activities** | | (4,899,060) | (588,956) |
| **(Decrease) in cash and cash equivalents during the period** | | (3,964,025) | (34,832) |
| **Cash and cash equivalents, beginning of year** | | 20,615,354 | 8,822,894 |
| **Cash and cash equivalents, end of period** | 9 | 16,651,329 | 8,788,062 |

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

## Note 1
## Nature and description of the Corporation

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

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

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

## Note 2
## Summary of significant accounting policies

### Basis of presentation and consolidation

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB). **Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB, have been omitted or condensed.**

The Corporation prepared its condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). **Refer to note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2016 for a summary of significant accounting policies used in the preparation of these condensed consolidated financial statements.**

## Note 3
## Critical accounting judgments, estimates and assumptions in applying accounting policies

### Critical judgments in applying accounting policies

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

- Selection of accounting standards: The Corporation has been identified as a Government Business Enterprise and accordingly management considered various criteria applicable to the Corporation's business in selecting the appropriate accounting standards to follow. These criteria include whether the Corporation: (a) is a separate legal entity with powers to contract in its own name and sue and be sued; (b) has been delegated the financial and operational authority to carry on a business; (c) sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and (d) can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government. The Corporation meets all the above criteria and, therefore, follows IFRS.

- The Corporation's accounting policies relating to investment properties are described in note 2 of consolidated financial statements for the year ended December 31, 2016. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

- As stated in note 5 of consolidated financial statements for the year ended December 31, 2016, the Corporation feels that in absence of reliable comparable market data, and alternative reliable estimates of fair value, it will not be possible to reliably measure its investment properties at fair value on a continuing basis and as a result has elected to use the cost basis model.

- The Corporation makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases, are operating or finance leases. The Corporation has determined that all of its tenant leases and long-term ground leases are operating leases.

**Critical accounting estimates and assumptions**

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

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

The estimates also include: (i) impairment of investment properties and financial instruments; (ii) useful lives of investment properties and the significant components thereof and of infrastructure, furniture, fixtures and equipment used in the calculation of amortization; (iii) fair value of financial instruments; (iv) allowances for doubtful accounts; and (v) measurement of environmental provisions.

## Note 4
## Future accounting policy changes

IAS 7 "Disclosures" ("IAS 7")

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

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

IFRS 15 provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity’s own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. The entity’s own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Lastly, a third measurement category for financial assets – “fair value through other comprehensive income” – will exist. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. The Corporation is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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

IFRS 7 has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 16, “Leases” (“IFRS 16”)

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

**Note 5**
**Investment properties**
Investment properties consist of the following:

| | | | **March 31, 2017** |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net** |
| | $ | $ | $ |
| Land | 321,378,282 | - | 321,378,282 |
| Base building and structure | 21,315,640 | 6,481,373 | 14,834,267 |
| Elevator | 36,125 | 12,471 | 23,654 |
| HVAC | 1,602,280 | 925,362 | 676,918 |
| Roof | 2,541,856 | 874,421 | 1,667,435 |
| Land improvement | 1,337,337 | 263,946 | 1,073,391 |
| Paving | 940,821 | 256,249 | 684,572 |
| Yard work | 1,223,225 | 1,212,492 | 10,733 |
| Leasing commission costs | 30,846 | 7,716 | 23,130 |
| | **350,406,412** | **10,034,030** | **340,372,382** |

| | | | **December 31, 2016** |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net** |
| | $ | $ | $ |
| Land | 320,904,064 | - | 320,904,064 |
| Base building and structure | 21,308,300 | 6,231,731 | 15,076,569 |
| Elevator | 36,125 | 12,042 | 24,083 |
| HVAC | 1,602,280 | 896,529 | 705,751 |
| Roof | 2,487,437 | 826,775 | 1,660,662 |
| Land improvement | 1,337,337 | 250,266 | 1,087,071 |
| Paving | 940,821 | 240,725 | 700,096 |
| Yard work | 1,223,225 | 1,210,346 | 12,879 |
| Leasing commission costs | 30,846 | 6,174 | 24,672 |
| | **349,870,435** | **9,674,588** | **340,195,847** |

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

| | **March 31, 2017** |
|---|---|
| | $ |
| Balance as at December 31, 2016 | 340,195,847 |
| Additions and disposals: | |
| Capital expenditure | 535,977 |
| Amortization | (359,442) |
| **Balance as at March 31, 2017** | **340,372,382** |

## Note 6
## Other non-current assets

Other non-current assets consist of the following:

| | **March 31, 2017** | **December 31, 2016** |
|---|---|---|
| | **$** | **$** |
| Project development costs | 1,167,520 | 1,156,139 |
| Straight-line rent receivable | 509,054 | 518,585 |
| Free rent cost | 47,290 | 53,236 |
| Infrasturcture, furniture, fixtures and equipment (a) | 1,378,008 | 1,162,484 |
| | **3,101,872** | **2,890,444** |

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

| | **March 31, 2017** | | | **December 31, 2016** | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net** | **Cost** | **Accumulated Amortization** | **Net** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Rail lines and infrastructure | 1,517,375 | 280,217 | 1,237,158 | 1,277,375 | 257,324 | 1,020,051 |
| Fencing | 803,948 | 753,187 | 50,761 | 803,948 | 746,509 | 57,439 |
| Furniture, fixtures and office equipment | 377,630 | 331,255 | 46,375 | 367,846 | 325,930 | 41,916 |
| Computer equipment | 444,074 | 422,331 | 21,743 | 441,255 | 419,022 | 22,233 |
| Property maintenance equipment | 51,874 | 29,903 | 21,971 | 48,873 | 28,028 | 20,845 |
| | **3,194,901** | **1,816,893** | **1,378,008** | **2,939,297** | **1,776,813** | **1,162,484** |

## Note 7
## Amounts receivable

Amounts receivable consist of the following:

| | | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| | | $ | $ |
| Tenants | | 943,651 | 1,111,181 |
| Others | | 1,438,904 | 1,533,555 |
| City (property tax related) | | 2,256,481 | 2,407,434 |
| Related party | Note 12(b) | 703,047 | 671,727 |
| Allowance for doubtful accounts | | (1,112,484) | (1,112,484) |
| | | **4,229,599** | **4,611,413** |

## Note 8
## Short-term investments

Short term investments consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Guaranteed investments certificates | 11,050,000 | 7,000,000 |

## Note 9
## Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 2,266,967 | 2,364,022 |
| Flexible GICs | 14,249,948 | 18,230,491 |
| High interest savings accounts | 134,414 | 20,841 |
| | **16,651,329** | **20,615,354** |

## Note 10
## Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Trade payable | 1,538,195 | 2,178,583 |
| Accrued liabilities | 398,839 | 905,908 |
| Property tax related | 2,512,233 | 2,537,790 |
| Other | 102,181 | 115,902 |
| Construction holdbacks | - | 12,793 |
| | **4,551,448** | **5,750,976** |

## Note 11
## Tenants' deposits and prepaid rents

Tenants' deposits and prepaid rents consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Tenant deposits | 400,315 | 400,315 |
| Prepaid rents | 7,728,747 | 7,932,506 |
| | 8,129,062 | 8,332,821 |
| Less: current portion | 161,342 | 365,101 |
| | **7,967,720** | **7,967,720** |

Included in prepaid rents is $7,698,504 (December 31, 2016 - $7,742,204) deferred rental revenue from the Toronto Hydro Electric Commission for two 99-year leases and St Mary's Cement Corporation for a 20-year lease.

## Note 12
## Related party transactions

Refer to note 12 of the Corporation's consolidated financial statements for the year ended December 31, 2016 for a detail description of relationship with related parties.

**a) City of Toronto**

Included in amounts receivable are amounts due from the City for rent, hydro, realty tax adjustments and the City's share of project study costs. Included in accounts payable and accrued liabilities are amounts due to the City for realty taxes, water and hydro. Included in rental property operating expenses are realty taxes and water & sewage costs paid to the City for the period.

In 2016, the City directed a payment to be made by the Corporation to the incubator program by way of a dividend. The amount is included as a dividend in the statement of equity (note 17).

**b) Invest Toronto Inc. (ITI)**

i) The related party amount included in amounts receivable (note 7) represents amount due from ITI. The Corporation has provided a grant to ITI in 2016 for $2,025,000 to fund its operating and capital expenditures.

ii) The Corporation has agreed with ITI to share certain administrative, accounting and other corporate services on a cost allocation basis. The allocation of these costs to ITI for the period is $16,098 (March 31, 2016 - $35,205).

## Note 13
## Consolidated statement of cash flows

**(a) Items not affecting cash**

| **For the** | **Three months ended March 31, 2017** | **Three months ended March 31, 2016** |
|---|---|---|
| | **$** | **$** |
| Amortization of investment properties and tenant improvements | 399,522 | 356,484 |
| Amortization of free rent cost | 5,946 | 5,946 |
| Prepaid rents recognized | (203,759) | (156,363) |
| Straight-line rent receivable | 9,531 | (20,090) |
| | **211,240** | **185,977** |

**(b) Net change in operating assets and liabilities**

| | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |
| Amounts receivable | 381,814 | 376,990 |
| Accounts payable and accrued liabilities | (1,199,528) | (1,208,628) |
| Prepaid expenses | (293,242) | 30,754 |
| | **(1,110,956)** | **(800,884)** |

## Note 14
## Revenue from investment properties

Investment property rental revenue comprises the following:

| **For the period ended March 31** | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |
| Leases | 2,186,713 | 2,149,851 |
| Licences | 982,919 | 936,903 |
| Parking and other revenue | 45,675 | 94,637 |
| Recoverable operating costs and property taxes | 759,604 | 995,018 |
| | **3,974,911** | **4,176,409** |

## Note 15
## Investment property operating expenses

Investment property operating expenses comprise the following:

| **For the period ended March 31** | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |
| Repairs and maintenance | 186,363 | 259,125 |
| Property taxes | 579,020 | 864,908 |
| Administrative | 36,888 | 36,546 |
| Utilities | 267,485 | 283,389 |
| | **1,069,756** | **1,443,968** |

## Note 16
## General and administrative expenses

General and administrative expenses comprise the following:

| **For the period ended March 31** | **2017** | **2016** |
|---|---|---|
| | **$** | **$** |
| Salaries and expenses | 545,307 | 562,972 |
| Professional fees | 66,616 | 103,434 |
| Office services | 200,852 | 216,670 |
| | **812,775** | **883,076** |

## Note 17
## Incubator program grant

Refer to Note 12(a) (iii) of the Corporation’s consolidated financial statements for the year ended December 31, 2016 for the description of the grant. The grant agreement has not been renewed since January 1, 2016.

For the three months ended March 31, 2017, no payment was made by the Corporation to the incubator program. In 2016, the City directed a payment of $1,890,293 by way of a dividend which is included in the Corporation's statement of equity.

## Note 18
## Invest Toronto Inc. (ITI) grant

Refer to Note 12(c) (i) of the Corporation's consolidated financial statements for the year ended December 31, 2016 for the description of the grant. The grant agreement was not renewed from October 1, 2016.

## Note 19
## Commitments

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

## Note 20
## Contingencies

a) The Corporation is subject to various legal claims arising in the normal course of its operations. The ultimate outcome of these claims cannot be determined at this time. However, the Corporation's management believes the ultimate resolution of these matters will not have a material adverse effect on these consolidated financial statements.

b) Pursuant to an agreement to provide support to Medical and Related Science Discovery District ("MaRS") related to its facility in a heritage designated building, the Corporation has provided a $500,000 undertaking to the City for the successful completion of the facility.

c) The Corporation may be required to satisfy an asset retirement obligation for environmental contamination left by tenants or former owners of certain properties in the Port lands. The obligation to remedy the contamination is contingent on uncertain future events, including contamination levels exceeding acceptable levels, as prescribed by the Ontario Ministry of the Environment. The obligation to remedy the contamination may also result from the Corporation and its parent, the City, agreeing to development plans for the lands. The valuation of the asset retirement obligation has been estimated at $47,600,000 at most, but given the uncertainty of when remediation will take place or the total costs expected to actually be incurred, this provision has been determined to not be reliably measurable and accordingly, has not been recognized for accounting purposes.

d) Pursuant to a consulting agreement entered by the Corporation with Build Toronto Inc. ("BTI") on January 1, 2014 in connection with the sale of 260 Eight Street and 124 Birmingham Street, the Corporation will pay BTI all reasonable third party expenses from August 1, 2013 and after, subject to providing sufficient information and submission for the Corporation's Board approval. All expenses shall be paid out of the closing proceeds of sale. Net proceeds, after deducting all third party expenses and BTI's out-of-pocket expenses will be distributed, with the Corporation receiving 80% and BTI 20%. As at March 31, 2017, BTI has reported net expense of $598,528

(December 31, 2016 - $458,277). Since no sale has been closed, the expense is not recorded as a payable of the Corporation.

## Note 21
## Financial instruments

a) Fair value through profit or loss

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

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

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

As at March 31, 2017, cash and cash equivalents of $16,651,329 (December 31, 2016 - $20,615,354), restricted cash and investments of $16,020,111 (December 31, 2016 - $15,974,013) are classified in the Level 1 category.

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

b) Risk management

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

- Credit risk

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

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

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

Management believes the Corporation’s credit risk is low.

- Market risk

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

- Liquidity risk

  Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Corporation has $4,551,448 of accounts payable and accrued liabilities that are due within one year. The Corporation has cash and cash equivalents, short-term investments and amounts receivable that are sufficient to satisfy these liabilities.

- Interest rate risk

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

## Note 22
## Capital management

The Corporation’s capital comprises shareholder’s equity.

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

## Note 23
## Subsequent events

a) Pursuant to the City's direction in July 2016, the Corporation's Board of Directors declared a dividend on May 11, 2017 in the amount $ 890,412 to the City with respect to its first year's contribution to Greater Toronto Region Investment Attraction.

b) On May 12, 2017, the Corporation sold a portion of 260 Eight Street representing 3.3 acres for $2,407,000. The proceeds are to be distributed between the Corporation and BTI pursuant to the consulting agreement dated January 1, 2014 described in note 20(d).