ANNUAL REPORT | 2017/ 2018

# ONTARIO INFRASTRUCTURE AND LANDS CORPORATION

Ontario
Infrastructure Ontario

## OUR PURPOSE

We build, manage, finance, and enhance the value of Ontario public assets.

## OUR VALUES

### EXECUTION DRIVEN

We are committed to delivering high-quality advice and projects on time and on budget.

### DILIGENT

We protect the public interest by ensuring that everything we do is open, transparent, and represents value for the Province.

### INNOVATIVE

We work with our clients and partners to identify new opportunities to work together, creating industry-leading solutions, putting them into action, and continuously improving.

### CLIENT FOCUSED

We know we are only successful when we work collaboratively with our clients, listening to their needs and providing honest and fact-based advice.

### PEOPLE ORIENTED

We believe in fostering long-term relationships with our employees and stakeholders and are committed to developing our employees' unique talents and expertise – this is at the core of our success.

### OUR CULTURE

Our dedicated team is committed to continuous improvement. We constantly assess the way we do business, evolve best practices, and embrace the changes necessary for future improvements.

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# MESSAGE FROM

## CHAIR OF THE BOARD OF DIRECTORS

It is my pleasure to present the annual report of Infrastructure Ontario (IO), highlighting the agency's accomplishments during the 2017–18 fiscal year. During the past year, IO has provided exemplary service to the Government of Ontario and communities across the Province in delivering major infrastructure projects, realty services, infrastructure lending, and commercial advice.

For the second consecutive year, IO was selected as P3 America's Government Agency of the Year. The award recognizes IO's innovative structuring and delivery of P3 deals and successful use of partnerships to deliver economic and social benefits to Ontario communities. We are justifiably proud of this accomplishment, which testifies to the strength of the partnerships forged between the agency and our public and private sector partners.

In all of its undertakings, IO is committed to principles of transparency, accountability, and continuous improvement. During 2017-18, IO welcomed a review by the Auditor General of Ontario of the IO-managed General Real Estate Portfolio. The Auditor General's insights and findings will contribute to our modernization and effective management of government real estate. The Board appreciates the recommendations of the Auditor General and will continue to monitor the agency's progress in implementing them.

Good governance remains at the core of the agency's strength and is fundamental to its success. My fellow Board members bring with them a strong commitment to public service in addition to a wide range of individual expertise. I wish to acknowledge their invaluable contributions during the past year. To augment the Board's diversity of perspectives, we have been pleased to welcome Christopher Escott to the Board, whose expertise in engineering and project management advisory services will enhance the depth of experience in these areas. Following the conclusion of 2017-18 year, in April the Board also welcomed as new directors Cecilia Williams, whose background in finance and real estate will be invaluable to the organization, and Jane Pepino, who brings substantial expertise in urban planning, governance, and exceptional experience as a director. In addition, in May directors Vito Sgro and Lawrence Kelly retired from the Board. On behalf of the Board, I wish to express our gratitude for their dedicated service.

It is the breadth of skills and depth of expertise at IO that makes the agency truly unique. The agency's overall success is due in greatest measure to the efforts of all its employees; on behalf of the Board, I commend them for their professionalism and dedication.

IO will continue to employ its collective talent and experience to build, manage, finance, and enhance the value of Ontario public infrastructure and real estate on behalf of all Ontarians.

**Linda Robinson**
Chair, Board of Directors

# PRESIDENT AND CEO

The past fiscal year for Infrastructure Ontario has seen the agency reach many important milestones and establish new objectives to achieve in the future.

During 2017-18, the agency's Major Projects division issued its one hundredth Alternative Financing and Procurement (AFP) project to the market. We are proud to have achieved this milestone in little more than a decade since the introduction of our first AFP project in 2005. Today, in communities across the Province, more than 60 of these projects have reached substantial completion and are now in service. During the course of the year, we built on this achievement by bringing five AFP projects to substantial completion and an additional nine projects to financial close. The AFP portfolio now has an overall capital value totaling more than $45 billion.

IO issued its most substantial pipeline of AFP projects to date, which included 15 social infrastructure projects and 17 civil infrastructure projects with a total estimated capital cost of $15.8 billion.

IO's Real Estate division oversees one of the largest and most diverse portfolios in the nation. This past year, it continued to modernize and enhance the portfolio while reducing the size of its holdings. Over $750 million was committed towards operation and maintenance of the portfolio and $350 million to capital repairs and leasehold improvements. As part of its responsibility to leverage the value of surplus provincial land, the division disposed of three sizeable parcels that contributed $600 million to the provincial Trillium Trust.

IO's Lending program provides affordable, long-term financing to public sector clients, helping them to modernize and renew their infrastructure and revitalize their communities. Last year, IO approved 94 new loans worth approximately $700 million, which brought the total value of loans advanced since the program's establishment to $8.9 billion.

The Commercial Projects division worked to identify and create strategic partnerships and provide commercial advice to the government. During 2017-18, the division assisted in formulating the Province's Affordable Housing Lands Program, which will deliver over 2,700 new affordable housing units in the Greater Toronto Area using surplus provincial land. It also provided strategic commercial advice to a range of ministries and government agencies throughout the year.

All of us at IO take pride in these accomplishments. We look forward to building on this year's success as we hone our strategic focus, improve upon the way we work, and use our collective expertise to benefit the government and people of Ontario.

**Ehren Cory**
President and Chief Executive Officer

# WHO WE ARE

Infrastructure Ontario (IO) is a Crown agency established under the Ontario Infrastructure and Lands Corporation Act, 2011 that provides a wide range of services supporting government initiatives to modernize and maximize the value of public infrastructure and real estate. IO upholds the government's commitment to renew public services and we do so in co-operation with the private sector.

We believe in the potential of the public and private sector working together. IO has four business lines that have a track record of building successful relationships with the private sector to benefit Ontarians across the Province:

## MAJOR PROJECTS

Acts as procurement and commercial lead for all major public infrastructure projects in the Province.

## REAL ESTATE SERVICES

Modernizes and enhances the government real estate portfolio through asset planning, facilities contract management, and real estate advisory services.

## INFRASTRUCTURE LENDING

Supports the renewal of public sector infrastructure by delivering affordable long-term loans to eligible clients.

## COMMERCIAL PROJECTS

Provides advice and negotiation support to the government and public sector partners regarding commercial transactions, including major land developments.

We are proud of how IO brings together this expertise to benefit people and communities that rely on public services.

## OUR PURPOSE

Carefully planned infrastructure investment is one of the most effective ways to manage costs, reduce the real estate footprint, and create greener buildings and work environments. The strategic advice that IO provides to government is more important than ever before.

This infrastructure renewal program requires all work to be performed effectively, affordably, safely, and with high quality. IO has an impressive track record of successful project delivery and real estate management.

Our responsibilities include:

- Protecting the public interest by providing the government with expertise when negotiating with the private sector;
- Managing long-term risks posed by aging and inadequate public infrastructure and real estate assets;
- Stimulating economic benefits and jobs by delivering government investment in infrastructure and real estate in collaboration with the private sector;
- Completing work in a sustainable and environmentally responsible manner;
- Generating revenues through land sales and development, unlocking the value of public assets; and
- Delivering vital infrastructure through a lending program that enables public sector organizations to provide services to Ontarians in communities throughout the Province.

## CORPORATE GOVERNANCE

IO is governed by a Board of Directors and a Chief Executive Officer appointed by the Lieutenant Governor in Council. The agency reports to the Ministry of Infrastructure (MOI) through the Chair of our Board of Directors.

IO's delivery of infrastructure projects worth billions of dollars, and its responsibility to manage one of the largest real estate portfolios in Canada, requires a rigorous and accountable governance structure. IO applies a high standard of corporate governance to ensure accountability and operational efficiency. The Ontario Infrastructure and Lands Corporation Act, 2011 sets out IO's authority and responsibilities. The agency is accountable to the Ontario Legislature through the Minister of Infrastructure. A Memorandum of Understanding (MOU) from the Minister clarifies and delineates IO's roles and responsibilities, as well as the accountability framework between the ministry and the agency. The annual business plan and annual report submitted to the Minister are prepared in accordance with applicable legislation and the government's Agencies and Appointments Directive. Decision-making thresholds of IO's management committees and individual staff members are governed by a Delegation of Authority, which is approved by the agency's Board of Directors.

## CODE OF CONDUCT

The Code of Conduct is one of IO's governing documents designed to provide guidance, principles, and standards for expected ethical behaviour. It applies to the Board of Directors, executive and senior management, and all employees. As a condition of employment, IO employees must annually confirm their commitment to comply with the code.

## ACCOUNTABILITY AND TRANSPARENCY

IO is mindful of its obligations to exercise due diligence, ensure accountability, provide transparency, and demonstrate results, so as to provide real value to the Province in its endeavours. Several oversight committees monitor financial and operational performance, risk management, and accountability as illustrated in the following chart:

### BOARD OF DIRECTORS

| GOVERNANCE & COMPENSATION COMMITTEE | EXECUTIVE COMMITTEE | CREDIT & REAL ESTATE COMMITTEE | AUDIT COMMITTEE |
|---|---|---|---|
| Recommends Board/ committee composition; promotes corporate governance principles; reviews/recommends staff compensation/succession plans; oversees corporation pension and benefits plans | Exercises specific delegated authority of the IO Board and reviews/assesses public works, infrastructure and real estate projects, and projects assigned to IO having high value, high profile, high risk, or complex structure | Monitors IO's credit profile and lending function; reviews/ oversees adherence to lending/treasury policies; monitors all of the real estate activities | Oversees IO's Enterprise Risk Management (ERM), financial reporting and audit process, and financial reporting of the General Real Estate Portfolio |

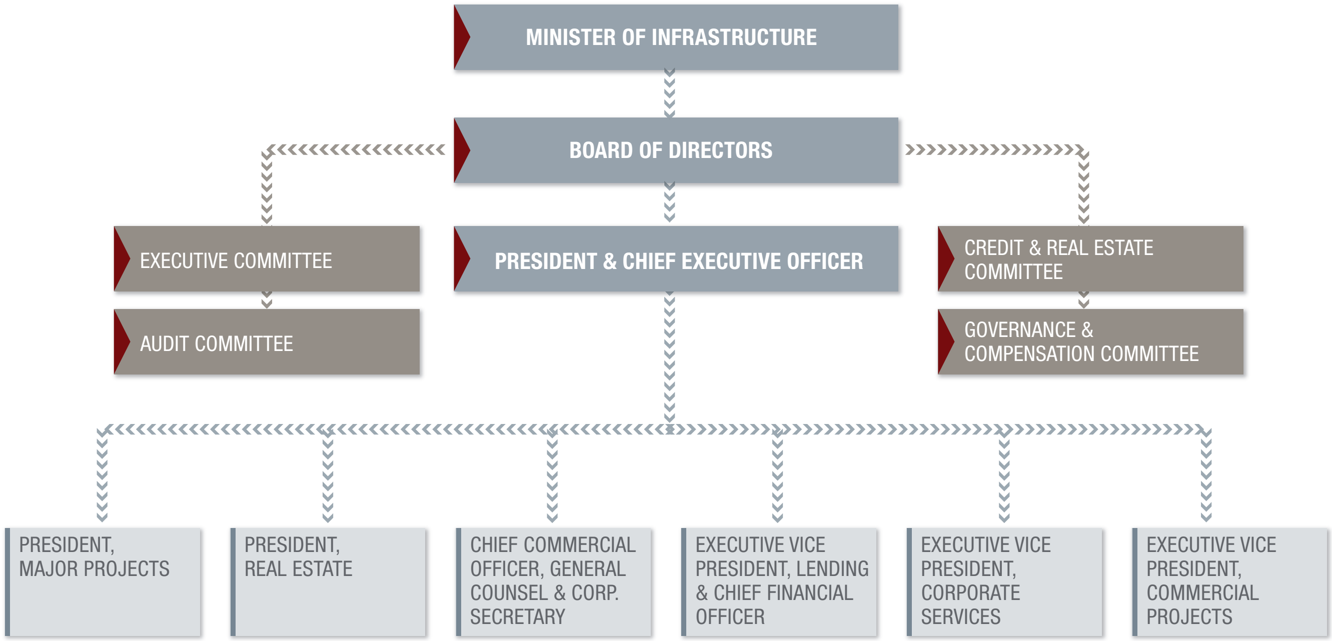
### CEO AND EXECUTIVE TEAM

| PENSION MANAGEMENT COMMITTEE | REAL ESTATE MANAGEMENT COMMITTEE | AFP STEERING COMMITTEE | CREDIT REVIEW COMMITTEE |
|---|---|---|---|
| Manages corporation pension plans, reporting to the Executive Committee, and Governance and Compensation Committee | Oversees asset management, strategic asset planning, realty transactions and land development that impact the General Real Estate Portfolio, also all real estate traditional projects and AFP operations and Early Works | Oversees all business development, delivery and operations related to AFP Projects and traditional major projects assigned to the division for delivery | Develops/oversees credit risk and treasury policy; monitors all lending functions of the organization |

## RISK MANAGEMENT

Risk management is ingrained in all projects and processes across the organization. IO utilizes a comprehensive Enterprise Risk Management (ERM) program that helps the organization identify, evaluate, mitigate, monitor, and report on risks. This past fiscal year, IO refreshed its enterprise risk profile to consider legacy, current, and emerging risks. Risks are also considered through multiple perspectives (strategic, operational, financial, and reputational). Key risks and mitigation activities are regularly reviewed by senior management and reported quarterly to the respective Board of Directors committees and MOI.

# OUR CORPORATE STRUCTURE




## BOARD OF DIRECTORS

As of March 31, 2018, IO's Board consists of 11 experienced and well-informed members. The directors have a wide breadth of expertise and private sector knowledge, as well as business, industry, financial, and other relevant experience to carry out their fiduciary duties and uphold the interests of the organization.

**Linda D. Robinson**, Chair (Term: March 7, 2017, to March 8, 2020)
Linda Robinson is a retired partner of Osler, Hoskin & Harcourt LLP, a leading Canadian law firm, where she was a senior partner in their corporate group and the Chair of Osler's national business law department.

**Deborah Barrett** (Term: December 20, 2016, to December 20, 2019)
Deb Barrett, a Chartered Professional Accountant, is a corporate director with more than 30 years' experience as a senior financial officer. She currently also serves on the board of Great-West Lifeco Inc. and the audit committee of The Globe and Mail. From 2011 until her retirement in 2017, she was the CFO of The Woodbridge Company Limited, a private investment company.

**Bruce Bodden** (Term: February 25, 2017, to February 25, 2020)
Bruce Bodden retired from MMM Group Limited where he practiced engineering and management over a 44-year career. For 10 of his last 12 years at MMM, he was President and CEO and served as Chairman for two years prior to his retirement.

**Johanne Brossard** (Term: December 20, 2016, to December 20, 2019)
Johanne Brossard is a senior executive with more than 30 years' experience in the financial services industry in Canada, Europe, and Japan. Her most recent role was as President and CEO of Bank West, a subsidiary of Desjardins, from 2013 to 2014 and as Senior Vice President of National Online Banking Development for Desjardins.

**Colleen Campbell** (Vice Chair) (Term: October 23, 2013, to October 22, 2019)
Colleen Campbell is the Vice-Chair of BMO Capital Markets, the investment and corporate banking arm of the Bank of Montreal. She is recognized as a leader in the development of the model for infrastructure bond financing in the Canadian market.

**Patrick J. Dillon** (Term: September 6, 2017, to November 15, 2019)
Patrick Dillon is the Business Manager and Secretary Treasurer of the Provincial Building and Construction Trades Council of Ontario. In addition, he has been appointed by the Government of Ontario to serve on several boards, including the Workplace Safety and Insurance Board.

**Christopher Escott** (Term: November 29, 2017, to November 28, 2020)
Christopher Escott is a retired Senior Vice President of Delcan Corporation, an engineering and technology firm, which provides integrated systems and infrastructure solutions worldwide.

**Lawrence Kelly** (Term: May 4, 2016, to May 4, 2019)
Larry Kelly founded the law firm Kelly Santini LLP more than 30 years ago, practicing in corporate, real estate, employment, litigation, estate planning, and sports law. His professional experience includes serving as a director of several companies, universities, and hospitals.

**Gadi Mayman** (Term: January 24, 2017, to January 24, 2020)
Gadi Mayman is Chief Executive Officer of the Ontario Financing Authority, responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO of the Ontario Electricity Financial Corporation.

**Vito Sgro** (Term: July 18, 2016, to July 18, 2019)
Vito Sgro is a Chartered Professional Accountant and a partner with CBM Chartered Accountants LLP, dealing with all accounting, auditing, and general financial issues for the firm's clients. He is a former Auditor and Appeals Officer with the Canada Revenue Agency.

Subsequent to March 31, 2018, two additional members joined the Board:

**Jane Pepino** (Term: April 11, 2018, to April 11, 2021)
Jane Pepino is a senior partner of Aird & Berlis LLP and is founder of the firm's Municipal and Land Use Planning group. She is a member of the Chair's Advisory Council of the Urban Land Institute, the Architectural Conservancy of Ontario, and an honourary member of Lambda Alpha International, a global land economics society.

**Cecilia Williams** (Term: April 11, 2018, to April 11, 2021)
Cecilia Williams is the Executive Vice President and Chief Financial Officer of Allied Properties REIT, which she joined in January 2015. Cecilia is a graduate of the University of Toronto and was formerly Vice President and Controller of Dream Unlimited and Chief Financial Officer of Dream Alternative Trust.

## PRESIDENT AND CEO

**Ehren Cory** (Term: February 2, 2017, to February 2, 2020)
Ehren Cory is President and CEO of IO. He was appointed CEO in February 2017. In this role, he works closely with his executive team and with partners in both the public and private sectors to build, manage, finance, and enhance the value of the Province's assets.

Ehren was previously the President of IO's Major Projects Division. He and his team led the tendering and construction oversight for all major infrastructure projects undertaken by the Province, ensuring on-time and on-budget delivery.

He initially joined the organization in 2012 as Executive Vice President of Transaction Structuring. In this role, he was responsible for ensuring that all transactions undertaken by IO were designed to optimize market participation and deliver maximum value for taxpayers through fair, open, and transparent procurement processes.

Prior to joining IO, Ehren worked for 15 years as a management consultant and as a partner at McKinsey & Company. Ehren served as a leader in the Public Sector and Capital Projects groups, working with energy and mining clients in both the public and private sectors on issues including operating strategy, project execution, risk management, and operations transformation.

## DIVISIONS

IO has been asked to play a lead role on a number of new and exciting government initiatives. These include a historic public transit investment program, a range of very large and complex commercial transactions, provision of long-term financing to public sector clients, and development and implementation of strategies to better manage the government real estate portfolio.

IO delivers this mandate through six divisions:

1. Major Projects
2. Real Estate
3. Finance and Lending
4. Commercial Projects
5. Transaction Structuring
6. Corporate Services

## MAJOR PROJECTS

**Chris Gauer - President, Major Projects**

The Major Projects Division delivers large and complex infrastructure projects on behalf of the provincial government. The delivery of major infrastructure projects has a variety of associated risks, regarding cost, schedule, urban disruption, and long-term asset quality for example. It is critical for the Government of Ontario to employ the best project delivery techniques to ensure that these projects are successfully delivered.

Alternative Financing and Procurement (AFP) is an innovative made-in-Ontario model that employs the best elements of both traditional public procurement and public-private partnerships to finance and deliver large, complex infrastructure projects. IO uses a whole-life approach to project delivery that involves:

- Extensive due diligence and pre-approvals from authorities in the planning stage and the use of empirical data to enable well-informed decisions;
- Contract methods to mitigate design risk and encourage innovation and value engineering during the procurement phase;
- Project financing arranged by a project consortia, which creates accountability and leads to lender oversight to help drive performance;
- A project execution approach that seeks to minimize disruption to the public and reduces risk by integrating construction stages; and
- Seamless delivery from the construction to operations phases using a whole-life approach to maintain the asset.

Successful project delivery is reliant upon competent private sector partners who identify, work through, and resolve the issues that arise on large complex projects. IO uses a rigorous pre-qualification process to select eligible bid teams and applies the rules that govern public procurement fairly and openly.

Performance-based contracts ensure the government accepts a well-constructed asset before the contractor is compensated. The standard Project Agreement reinforces the accountability of the project delivery teams to project sponsors, increases the rigour of construction scheduling, and enhances the ability to offset costs at substantial completion of a project. Protection against the risk of late delivery is covered in the Project Agreement by indemnity for any direct losses incurred by IO clients.

IO maintains a diverse portfolio of AFP projects ranging across multiple asset classes including health care, justice, education, and sport facilities, as well as transit and transportation infrastructure. As of March 31, 2018, IO has delivered over 60 projects using the AFP model, valued at over $20 billion in capital costs, and is currently managing an additional 25 AFP projects in construction worth over $16 billion in capital costs. IO's portfolio of projects is further progressing with an additional 21 AFP projects in active procurement and an additional 12 projects in the pipeline.

## REAL ESTATE

**Toni Rossi - President, Real Estate**

The government, through MOI, holds one of Canada's largest and most diverse real estate portfolios. The average age of the portfolio is approximately 52 years, with the majority of buildings constructed during the 1960s and 1970s.

Properties include offices, courthouses, detention centres, laboratories, heritage buildings, and land banks. Over three quarters of the building portfolio is government owned. IO's ability to meet the government's objectives and ensure the ongoing integrity and value of the real estate portfolio is dependent on adequate funding. Adding to the reinvestment challenge is an additional financial commitment needed to meet various government requirements such as accessibility, heritage preservation, and commitments such as greening and energy efficiency targets.

IO is mandated to: maintain the portfolio in a state of good repair with the resources available; optimize the size and composition of the portfolio; maximize the value of assets during the sale process; and provide real estate services that support public service program needs. IO's Real Estate division, which is one of IO's key business lines, delivers this mandate by providing government the following services:

**Realty Advisory and Asset Management**

- Optimizing and managing the size, composition, capital repair priorities, and financial administration of the portfolio;
- Enhancing the value of underutilized/vacant assets;
- Providing portfolio and accommodation advisory services, including workplace change, feasibility, and occupancy planning for government ministries and agencies;
- Carrying out heritage preservation projects for Ontario's provincially significant heritage properties;
- Managing AFP contracts during the operating and maintenance phases; and
- Managing outsourced property and land management service providers.

**Project Management**

- Delivering construction project management on behalf of client ministries to support program requirements; and
- Implementing environmental sustainability through energy retrofits.

**Realty Transactions**

- Conducting required due diligence and negotiating and executing property acquisitions, dispositions, leases, and licenses.

To support the effective delivery of these core services, IO utilizes its capabilities in analytics, client engagement, and geomatics.

**General Real Estate Portfolio at a glance**

- 43.3 million rentable square feet
- 4,664 buildings and structures
- 1.0 million acres of land of which IO manages approximately 121,000 acres

In addition to managing the General Real Estate Portfolio, IO's real estate expertise is increasingly being utilized to serve other realty funded by the provincial government. IO has received authorization to provide real estate advice and services on a cost recovery basis to more than 40 provincial agencies through Letters of Direction from MOI. IO is now enabled, subject to project-specific approvals, to provide real estate advice and services to broader public sector entities such as municipalities.

## FINANCE AND LENDING

**Krishnan Iyer - Executive Vice President Lending and Chief Financial Officer**

Modern and efficient infrastructure is fundamental to building and maintaining a strong economy, prosperous communities, and a clean, healthy environment. IO's Lending division delivers on one of the largest public sector loan programs in Canada, supporting infrastructure investment. The program provides affordable access to loan products not readily available in the market to support the renewal and development of critical public sector infrastructure. Loan Program benefits for public sector borrowers include:

- Affordable rates;
- Longer terms designed to match the life of the asset;
- No requirement to refinance over the life of the loan;
- Application and forms available on-line; and
- Access to dedicated and experienced staff.

In addition to delivering the IO Loan Program, this division performs the following key functions:

**Finance and Treasury** - supports the organization by ensuring the integrity of financial information, establishing budgets, monitoring divisional results including objectives, and issuing quarterly reports and financial statements.

**Risk Management** - responsible for ensuring appropriate Enterprise Risk Management policies and systems are in place to identify, monitor, and mitigate significant risk.

**Internal Audit** - provides independent, objective assurance on the design and operating effectiveness of internal controls within the organization.

## COMMERCIAL PROJECTS

**Jennifer Quinn - Executive Vice President, Commercial Projects**

The Commercial Projects division aims to maximize value for taxpayers through the advice it provides to government. The team accomplishes this by identifying and developing strategic partnerships with the private sector, providing commercial advice and analysis, overseeing complex land divestments, and leading business negotiations in support of government priorities.

## TRANSACTION STRUCTURING

**Marni Dicker - Chief Commercial Officer, General Counsel and Corporate Secretary**

The Transaction Structuring division is comprised of several specialized teams including: Legal, Procurement, Transaction Finance, and Business Strategy and Communications. Together, the division provides critical corporate services to support priorities across the organization.

The Legal team includes lawyers specializing in AFP transactions, commercial transactions, real estate and leasing, lending, privacy, government affairs, litigation, construction, and contract management. This team oversees the Board of Directors' management and co-ordination, advises the IO executive on ethical business practices including conflict of interest matters, and responds to all Freedom of Information and Protection of Privacy Act (FIPPA) requests.

Procurement executes and provides leadership in the procurement process for all AFP, real estate, and corporate services procurements, achieving process efficiencies, cost savings, transparency, and assuring fair procurement practices including protections against unethical bidding practices and conflicts of interest.

Transaction Finance performs financial structuring, due diligence, and evaluations in executing IO's transactions. It is also responsible for undertaking financial business cases and value-for-money assessments, providing sound financial analysis on which the agency may base its decisions.

The Business Strategy and Communications team is responsible for: IO's strategic and business planning activities; corporate branding; improving communications with clients, the media, and the public; and developing relationships with government, community, and industry leaders.

## CORPORATE SERVICES

**Kim Ellis - Executive Vice President**

The Corporate Services team provides tools, systems, and support to ensure that IO is able to attract and retain a talented and highly-engaged workforce. The Corporate Services division is comprised of the Human Resources and Information Technology teams.

The Human Resources team is committed to engaging IO's high performing employees through programs, processes, and tools that align with the needs of the organization, including:

- Advice and coaching on critical employee issues;
- Metrics and analysis that enhance decision-making;
- Recruitment, selection, orientation, on-boarding, and professional development guidance for new hires and existing team members;
- Career development and competitive compensation, incentive, benefits, and pension;
- Employee engagement programs including project site tours, quarterly administrative forums, and the annual summer associates talent pipeline program;
- Learning, performance, talent review, and succession planning programs and tools to ensure employees can achieve career objectives; and
- Health, safety, and accessibility practices and programs in the workplace.

The Information Technology team provides the necessary tools and architecture to enable information to flow across the organization in support of integrated business processes.

IO's 2017-18 corporate objectives are consistent with the agency's values and are organized according to four business drivers that support their fulfillment: grow the agency's impact; attract and retain employees; improve operational effectiveness; and build a culture of innovation. These areas of focus illustrate how IO intends to continually improve while delivering excellent results.

IO uses a performance measurement framework to ensure projects and processes are consistent with the agency's overall strategic direction and to monitor progress against key markers of success. Performance is reported on a quarterly basis to the executive and the Board of Directors using divisional dashboards, which provide commentary on specific issues and accomplishments.

In the 2017-18 fiscal year, IO achieved all of its corporate objectives. Details on the objectives and the results are listed in the following table:

## 2017-18 CORPORATE PERFORMANCE

| CORPORATE OBJECTIVES | MARKERS OF SUCCESS | ACHIEVEMENTS |
|---|---|---|
| **Grow our Impact** | Strengthen IO's position as the centre of expertise for major public infrastructure projects and realty management. | **Achieved**<br>• Successfully obtained approval for the Regional Express Rail (RER) infrastructure project packages 2 and 3; with a capital cost estimate of over $16 billion.<br>• Secured 10 social infrastructure projects, with a capital cost estimate of $6 billion.<br>• Expanded Corporate Realty initiatives with provincial agencies and the broader public sector.<br>• Secured a "Master Services" letter of direction with the Ministry of Finance for ongoing commercial advice.<br>• Began administering three grant programs: the Clean Water and Wastewater Fund, the Natural Gas Grant Program on behalf of the Ministry of Infrastructure, and the Fire Sprinkler Retrofit Grant Program on behalf of the Ministry of Seniors Affairs. |
| **Attract and Retain Employees** | Create a modern, inclusive and safe workplace environment that empowers employees to act as leaders. | **Achieved**<br>• Developed and implemented a Workplace Violence and Harassment (WVH) Policy and program outlining the agency's commitment to raise awareness and educate staff about violence and harassment, protect staff against violence where possible, reduce the risk of related incidents, promote a healthy working culture, and respond to the needs of victims for support and guidance. In support of this policy, IO has also created a WVH training module, which over 90% of staff have completed. |

| CORPORATE OBJECTIVES | MARKERS OF SUCCESS | ACHIEVEMENTS |
|---|---|---|
| **Attract and Retain Employees** | Ensure the approach to compensation, performance management, and career development is clear, transparent, equitable, and competitive. | **Achieved**<br>• Completed an employee compensation review and developed an executive compensation framework that aligns with the Broader Public Sector Executive Compensation Act.<br>• Established succession plans for senior management. |
| | Renew employee engagement through various activities and approaches to create an organizational environment employees are proud to be a part of. | **Achieved**<br>• Through extensive employee engagement, developed an Employee Value Proposition and Career Framework that helps define career progression and aligns with IO's compensation structure.<br>• Implemented a "Build Your Career" program designed to empower employees through tools and learning initiatives to own their career development. |
| | Elevate the safety culture and practices for our employees and across the industry. | **Achieved**<br>• The Certificate of Recognition occupational health and safety accreditation program is now a pre-qualification requirement for bidders on direct delivery real estate projects, following its successful application on AFP projects. |
| **Operate Effectively** | Deliver on IO's current mandates in real estate, infrastructure, lending, and commercial initiatives. | **Achieved**<br>• The 2017 Track Record report assessing IO's AFP performance found 70% of projects completed on-time and 95% on-budget (above industry standard).<br>• The IO Loan Program advanced $675 million in low risk loans.<br>• Disposition of surplus land assets contributed over $600 million to the provincial Trillium Trust.<br>• Preparatory work for ministry staff relocation initiated and RFP released for the Macdonald Block Reconstruction project. |
| | Demonstrate transparency and accountability to the Board, government shareholder, and public. | **Achieved**<br>• A comprehensive audit of IO's Real Estate services by the Auditor General of Ontario resulted in 10 constructive recommendations that IO immediately began to act upon.<br>• The 2017 Market Update was released to the private sector in November 2017, highlighting IO's largest pipeline of projects. |
| | Achieve the corporate budget. | **Achieved**<br>• The budget surplus for the fiscal year is greater than budgeted. |

| CORPORATE OBJECTIVES | MARKERS OF SUCCESS | ACHIEVEMENTS |
|---|---|---|
| **Operate Effectively** | Ensure clearly defined roles and responsibilities on all new mandates with partners and MOI. | **Achieved**<br>• Completed a new Memorandum of Understanding (MOU) with MOI that clearly defines roles and responsibilities.<br>• Established a joint governance model with Metrolinx for delivery of transit projects. |
| | Organize resources to efficiently fulfill IO's roles and responsibilities, and achieve results that demonstrate value. | **Achieved**<br>• Efficiently managed staffing while still allowing IO to:<br>▸ Achieve better performance than budget across all business lines;<br>▸ Address all the requests from the Auditor General during the audit of real estate services;<br>▸ Deliver RER projects; and<br>▸ Initiate new Corporate Realty projects. |
| **Build a Culture of Innovation** | Advance continuous improvement initiatives to evolve business practices and innovate the way we work. | **Achieved**<br>• Implemented a new Procurement Policy, with material improvements in conflicts and ethics provisions.<br>• Led the execution of the Provincial Affordable Housing Lands Program, which will deliver over 2700 new housing units across the GTA by leveraging the value of surplus provincial land assets. |
| | Align corporate services solutions to serve business units' requirements for modern information technology systems and data analytics capacities. | **Achieved**<br>• Piloted an electronic tendering system for AFP projects. The online bid submission and evaluation system will provide improved controls for conflict of interest screening, audit controls, and serve as a powerful comparative analytical tool across projects.<br>• Implemented an automated expense claim system, used for tracking and controlling expense reimbursements in line with the Province's Travel, Meals and Hospitality Expense Directive. |

# 2017-18 BUSINESS LINE HIGHLIGHTS

## MAJOR PROJECTS

During 2017-18, IO commissioned its third annual AFP Track Record report. This independent report was completed by Hanscomb consultants, with the purpose of analyzing on-budget and on-time performance for all AFP projects that reached substantial completion by March 31, 2017. Based on Hanscomb's analysis, of the 56 projects under review, 95% were completed on-budget and 70% were completed on-time. These results exceed the generally accepted industry standards for capital projects.

Future delivery of complex transit projects in urban areas may result in the erosion of IO's project performance record. Urban transit projects present unique delivery challenges and often encounter unforeseen circumstances. IO continues to define risks, explore solutions, and evolve the AFP model to adapt to and mitigate any such consequences.

The following list highlights major milestone dates for IO's AFP projects in 2017-18.

**Requests for Proposals were issued for ten projects:**

1. Regional Express Rail - Kipling Bus Terminal – April 2017
2. Brockville General Hospital – May 2017
3. Ontario Provincial Police Modernization - Phase 2 – July 2017
4. West Park Healthcare Centre – July 2017
5. Hurontario LRT – August 2017
6. Regional Express Rail - Lakeshore East Grading Package (East Corridor Expansion) – November 2017
7. Regional Express Rail - Rutherford Grade Separation – November 2017
8. Macdonald Block Reconstruction – February 2018
9. Highway 401 Expansion – February 2018
10. Regional Express Rail - Davenport Diamond – February 2018

**Construction began on nine projects:**

1. Mount Sinai Hospital – June 2017
2. Groves Memorial Community Hospital – June 2017
3. Regional Express Rail - Cooksville Station – November 2017
4. Regional Express Rail - Highway 401 Tunnel – December 2017
5. Michael Garron Hospital – February 2018
6. New Toronto Courthouse – February 2018
7. Brockville General Hospital – March 2018
8. Regional Express Rail - Stouffville Corridor – March 2018
9. Regional Express Rail - Kipling Bus Terminal – March 2018

**Substantial completion was achieved on five projects:**

1. Halton Healthcare Services - Milton District Hospital – April 2017
2. Casey House Hospice – May 2017
3. St. Thomas Elgin General Hospital – November 2017
4. ErinoakKids Centre for Treatment and Development – December 2017
5. GO East Rail Maintenance Facility – March 2018

## REAL ESTATE

### Targeted Realty Investment Plan (TRIP)

In the 2016-17 fiscal year, the Real Estate division developed an advanced real estate management strategy known as the Targeted Realty Investment Plan (TRIP). Now in its second year, TRIP is comprised of connected strategic plans to right-size and modernize the General Real Estate Portfolio (GREP) over a 10-year period. The TRIP operating principles are:

- Tie space requirements to actual program needs;
- Ensure provincial real estate tenants conform to asset performance benchmarks;
- Meet program needs through lowest cost accommodation by integrating enterprise real estate, HR, and IT requirements;
- Support the Provincial Climate Change Action Plan;
- Maintain space to a pre-defined, acceptable standard; and
- Prioritize capital repair and accommodation investments.

In 2017-18, IO made progress towards the fulfillment of TRIP's operating principles:

- Effectively managed the investment of approximately $164 million in building upgrades to address priority repairs;
- Generated $23.5 million in net sales and $1.2 million in liability reduction, exceeding annual targets for both;
- Initiated the decant of the Macdonald Block office complex, a key milestone towards achieving a portfolio-wide office space utilization rate of up to 180 RSF/staff from the current utilization of approximately 280 RSF/staff; and
- Achieved cumulative greenhouse gas and energy consumption reduction targets.

**Corporate Realty Initiatives**

In 2017-18, the government significantly increased its utilization of IO's real estate expertise to aid in the management of non-MOI controlled provincial realty. IO received Letters of Direction to deliver a range of real estate services for various provincial agencies and public sector entities.

Notably, IO received a Letter of Direction to provide leasing services, workplace solutions, capital planning, project management, and facility management services for all Ministry of Health and Long-Term Care (MOHLTC) agencies. This Letter of Direction has a duration of five years and assigns IO responsibility for two million square feet of realty across 22 MOHLTC agencies.

**Auditor General Real Estate Services Audit**

Throughout much of 2017-18, the Auditor General of Ontario conducted a comprehensive value-for-money audit of IO's Real Estate services. IO worked closely with the Auditor General's office in an intensive, constructive, and open process throughout the audit. The result of that cooperative and transparent approach was 10 constructive recommendations that IO immediately began to act upon.

## INFRASTRUCTURE LENDING

**Loan Program**

IO's Loan Program has helped hundreds of public sector clients deliver thousands of community projects in all parts of the Province. These loans are used to revitalize roads and bridges, build new recreation centres and affordable housing, and purchase equipment like fire trucks and energy-efficient streetlights. Each loan is different but the impact is the same: efficient, healthier, and more prosperous communities across Ontario.

In 2017-18, IO approved approximately $700 million worth of loans, bringing total loan advances to public sector clients to $8.9 billion since the program's inception. IO currently administers a $5.9 billion loan portfolio consisting of 979 active loans.

**Loan Program at a glance (since inception)**

- $15.8 billion worth of infrastructure renewal projects supported by the Loan Program
- 418 borrowers supported throughout Ontario

In addition to the Loan Program, IO continued the administration of three infrastructure grant programs on behalf of the provincial government: the Clean Water and Wastewater Fund and the Natural Gas Grant Program on behalf of MOI, and a Fire Sprinkler Retrofit Grant Program on behalf of the Ministry of Seniors Affairs. Grant administration leverages some of the core tools of the lending business and has been a natural expansion of the services IO provides.

### COMMERCIAL PROJECTS

**Commercial Transaction Advice**

In 2017-18, IO's strategic commercial advice contributed significantly to the Province's strategic priorities:

- IO completed the disposition of three high valued provincial land assets: Ontario Power Generation (OPG) Head Office (700 University Avenue, Toronto), Ontario Power Generation Lakeview Site, and a large portion of the Seaton Lands. These are the last of the assets identified as part of the government's asset optimization initiative with all proceeds being directed to the Trillium Trust in support of infrastructure funding. Proceeds to date have exceeded the original target by over $300 million.
- IO designed and led the execution of the Provincial Affordable Housing Lands Program, which will deliver over 2700 new housing units across the GTA by leveraging the value of select surplus provincial land assets. These housing units will be developed to include a mix of affordable and market housing, creating sustainable communities where they are needed most.
- IO supported the Ministry of Tourism, Culture and Sport in delivering the Ontario Place Revitalization project by advancing the conceptual planning and environmental assessment process for the East Island and managed the conceptual planning process for the West Island.

## 2017-18 FEATURE PROJECTS

### REGIONAL EXPRESS RAIL (RER)

Prominent on IO's AFP pipeline in 2017-18 was a portfolio of Metrolinx Regional Express Rail (RER) projects. The RER program is an unprecedented initiative that will transform commuter rail in the Greater Toronto and Hamilton region and change the way people use public transit. To deliver this program, IO and Metrolinx are working side by side as partners.

Three packages of RER work with a total capital value exceeding $20 billion were in various stages of procurement throughout the year. The first group of projects are made up of early or enabling works that will add track and construct grade separations and stations. The second group of projects will retrofit existing GO stations, add new stations, and build the City of Toronto's SmartTrack stations. These two programs support the last, largest, and most complex initiative, the Design Build Finance Operate Maintain (DBFOM) delivery of expanded commuter rail operations, supported by new rolling stock, systems, signals, and track electrification.

The largest infrastructure companies from Canada and around the world are participating in the RER projects and IO is working toward creating innovative mechanisms to address the complexities involved with this undertaking.

## ERINOAKKIDS CENTRE FOR TREATMENT AND DEVELOPMENT

The ErinoakKids Centre for Treatment and Development is the largest of Ontario's 20 children's treatment centres, treating almost 16,000 children and youth with disabilities in the Peel, Halton, and Dufferin regions. The ErinoakKids infrastructure project supports the agency's mission to help children and youth with physical, developmental, and communication disabilities achieve optimal levels of independence, learning, health, and well-being.

This project involved constructing three new purpose-built facilities for children with special needs. The main facility in Brampton is approximately 160,000 square feet. The Mississauga and Oakville sites are each approximately 62,000 square feet. The project allows ErinoakKids to consolidate programs and services from nine sites into the three new sites. All three projects achieved substantial completion on-budget, while maintaining a high standard of quality.

## MACDONALD BLOCK DECANT AND RECONSTRUCTION

The Macdonald Block Complex adjacent to Queen's Park in downtown Toronto is home to the largest concentration of Ontario public servants, housing 15 government ministries and approximately 4,000 employees.

The more than 45-year-old complex, which includes the Macdonald Block podium, and the Hearst, Hepburn, Mowat, and Ferguson towers, will undergo a major reconstruction. Core building systems have reached the end of their useful life and will be replaced. The reconstruction project is being delivered using the AFP Design, Build, Finance, and Maintain (DBFM) project delivery model, and consists of three major phases: decant, reconstruction, and maintenance.

The decant portion of the project will see ministries vacate the entire complex to enable the reconstruction to be completed safely, efficiently, and economically. Temporary leased office space has been secured in three downtown Toronto locations. IO is overseeing the interior design and construction of these leased spaces to ensure that they achieve an optimal office space utilization rate. Construction at all three locations is expected to be completed by early 2019.

IO also commenced early due diligence works for the reconstruction portion of the project in 2017-18. In addition, the Request for Proposals to procure the project consortium that will reconstruct and perform long-term maintenance for the complex was released in February 2018 and is expected to close in late 2018.

## ROUGE PARK DISPOSITION

In October 2017, the transfer of provincial lands and interests to the Federal Government (Parks Canada) to create the new Rouge National Urban Park, overlapping the cities of Toronto, Markham, Pickering, and the Township of Uxbridge was completed. The complex transaction included the disposition of 1,532 acres of MOI-owned land, plus 4,046 acres of Toronto and Region Conservation Authority and City of Markham lands that had provincial interests. The transfer reduces the provincial government liabilities associated with ownership, including an annual operating cost reduction of approximately $320,000.

## CITY OF TORONTO TEMPORARY SHELTER SPACE

Extreme cold weather and a lack of space for those in need prompted the provincial government to commit to the rapid re-purposing of 354 George St., Toronto (formerly the York Correctional Centre) into a temporary homeless shelter for the City of Toronto throughout the winter. The facility had been closed for almost 10 years and required a significant number of buildings systems to be restored and re-commissioned. IO delivered the re-commissioning work within three weeks, ahead of schedule.

## ENGAGING INDUSTRY AND PARTNERS

IO is committed to working with companies, associations, and experts in order to share knowledge, gather input on best practices, and develop opportunities for cooperation. IO maintains regular dialogue with associations, service providers, and advisory firms, providing updates on continuous improvement initiatives and consulting with industry representatives through market soundings and participation in industry conferences and events. This past fiscal year, IO participated in 55 public speaking engagements with industry.

In addition to engaging with industry, IO's doors are always open to colleagues in municipal, provincial, federal, and international governments as the agency believes that open communication and sharing of experience is the best foundation for growth, high performance, and success. During 2017-18, IO coordinated over 20 engagements with international stakeholders and foreign trade officers and developed new and strengthened existing working relationships with officials from jurisdictions and consulates representing the United States, the United Kingdom, South Korea, Japan, and Portugal.

In November 2017, IO published its Annual Market Update, highlighting 15 social infrastructure projects and 17 civil infrastructure projects. The total estimated capital cost of the AFP projects in the pipeline is $15.8 billion. In addition, the Market Update highlighted the approximately $300 million worth of capital repair and ministry leasehold improvement projects that will be brought to market to renew the provincial real estate portfolio.

## OUR SERVICE PROVIDERS

### PROJECT MANAGEMENT SERVICE PROVIDERS (PMSPS)

IO engages two industry leading Project Management Service Providers (PMSPs) to deliver real estate project management services for assignments across the Province valued between $100,000 and $10 million. Brookfield Global Integrated Solutions (BGIS) is the PMSP for northern Ontario and the downtown Toronto core, while Colliers Project Leaders is the PMSP for southern Ontario, the Greater Toronto Area, and eastern Ontario.

The PMSPs oversee the delivery of approximately $300 million worth of construction, capital repairs, leasehold improvements, studies, and ministry assignments on an annual basis. IO reviews the performance of the PMSPs using a comprehensive performance management framework, including a set of fee-at-risk key performance indicators.

The two PMSPs engage hundreds of small and medium-sized private Ontario businesses for the provision of products and services over the term of their contracts.

## PROPERTY AND LAND MANAGEMENT SERVICES (PLMS)

IO outsources Property and Land Management Services (PLMS) for the General Real Estate Portfolio to CBRE Ltd., a global property management and development company. CBRE employs industry-leading practices and sustainability principles and is directly responsible for delivering approximately $500 million worth of related facility operations and maintenance on an annual basis.

The PLMS contract provides day-to-day property management services through an extensive supply chain of local contractors managed by CBRE. The contract also provides for the management of realty holdings that are vacant and on hold for future use, under lease to third parties, or awaiting disposal. Small works projects under $100,000 are delivered under the PLMS contract. IO oversees and measures CBRE's monthly, quarterly, and annual performance using a number of fee-at-risk key performance indicators.

## AFP PROJECT COMPANIES

IO utilizes the AFP model to deliver public sector infrastructure projects that have a capital cost over $100 million and/or involve significant risk and complexity. Under the AFP model, provincial ministries and project owners define project scope and purpose, while the private sector finances and completes construction. The services procured from the private sector are defined by the AFP contract model that is utilized.

Once the project scope and the appropriate AFP contract model is determined, the sponsoring owner enters into a competitively procured contract with a project consortium. The project consortium is an association of private sector service providers which assume the risks associated with delivering the project on time and on budget.

The General Real Estate Portfolio includes 10 projects that have been delivered through the AFP Design, Build, Finance, and Maintain model. As such, IO has 30-year oversight relationships with the project and facility management companies responsible for the operations and life cycle asset management of these buildings.

## ATTRACTING AND RETAINING TALENTED PEOPLE

The unique skills and diverse expertise of IO employees are at the core of IO's success. Attracting, engaging, developing, and retaining talented people are high priorities across the organization.

IO strives to create a workplace where employees are dedicated to achieving organizational goals, know how to contribute their best effort, and feel challenged and engaged. In 2017-18, the Human Resources team introduced a number of new initiatives to enhance IO's commitment to its employees. A unique IO-specific Employee Value Proposition (EVP) was developed following input from staff members from across the organization. The proposition is grounded upon four principles:

- Our work has real impact
- We are empowered to succeed
- We work as one team
- We grow our people

The health and safety of staff, vendors, and stakeholders is of paramount importance to IO. The agency created and deployed mandatory Workplace Violence and Harassment training for all staff. In addition, to reinforce our commitment to creating a safe work environment, workplace violence risk assessments were completed for all IO office locations.

## COMMUNITY INVOLVEMENT - IO GIVES BACK

IO and its employees care about the sustainability of the environment and vitality of the communities in which they live and work. IO employees contribute to communities across the Province through volunteering, fundraising, and donations. In 2017-18, IO employees collaborated to raise over $100,000 for United Way Greater Toronto through cash and payroll donations and a number of special events. IO employees also supported local community-based agencies by volunteering their time to sort food and prepare snacks for a youth program.

# 2017-18 AWARDS

**INFRASTRUCTURE ONTARIO**
Gold - Government Agency of the Year
P3 Bulletin, P3 Awards 2017

**BRIDGEPOINT HEALTH**
Award of Merit: Large Places and/or Neighbourhood Designs Category
Toronto Urban Design Awards

**CASEY HOUSE HOSPICE**
Excellence in Conservation
Lieutenant Governor's Ontario Heritage Award for Excellence
Ontario Heritage Trust

**CENTRE FOR ADDICTION AND MENTAL HEALTH (CAMH) PHASE 1C REDEVELOPMENT**
Silver Award for Project Development
National Awards for Innovation and Excellence in Public-Private Partnerships
Canadian Council for Public-Private Partnerships

**HIGHWAY 427 EXPANSION PROJECT**
Silver - Best Transportation Project
P3 Bulletin, P3 Awards 2017

**PAN AM ATHLETES' VILLAGE**
Ontario Builder Awards, Group 6 Buildings
Ontario General Contractors Association

**WEST DON LANDS**
Global Award for Excellence
Urban Land Institute

**WEST DON LANDS - CORKTOWN COMMON**
Award of Excellence: Award of Merit: Large Places and/or Neighbourhood Designs Category
Toronto Urban Design Awards

**WOMEN'S COLLEGE HOSPITAL REDEVELOPMENT**
Ontario Builder Awards, Group 5 Buildings
Ontario General Contractors Association

# 2017-2018

## FINANCIAL REPORTS

For the year ended March 31, 2018

## OVERVIEW

Infrastructure Ontario (IO) is a Crown corporation reporting to the Minister of Infrastructure (Minister) and is classified as an operational enterprise. IO is governed by a Board of Directors pursuant to a memorandum of understanding with the Minister that sets out IO's accountability framework.

IO has four lines of business delivering results to public sector clients.

Major Projects manages large, complex public infrastructure projects through the Alternative Financing and Procurement (AFP) model, which uses private financing and expertise to strategically build high quality public infrastructure, and aspires to on time and on budget delivery, in partnership with the private sector.

Real Estate provides comprehensive asset management services for government owned and leased properties, which includes providing end to end real estate accommodation options to client ministries to ensure safe and secure operations through asset management, capital planning and project management solutions. It also provides strategic asset planning services to the Ministry of Infrastructure (MOI), to maximize the value of government assets through portfolio planning and rationalization. Real Estate also delivers capital and operational projects through outsourced service providers ensuring effective and efficient service delivery for Ontario's General Real Estate Portfolio (GREP), for which IO is the financial manager.

Lending administers IO's loan program, which provides Ontario municipalities and eligible public sector and not-for-profit organizations with access to affordable loans to build and renew public infrastructure.

Commercial Projects leverages private sector partnerships and investments for revenue generation, liability/cost reduction and efficiency in government services and investments. The business line also seeks to maximize the value of the provincially owned real estate portfolio with the involvement of the private sector, when IO is directed to take action by the Minister.

IO's business lines are supported by professional staff in human resources, legal services, procurement, business strategy and communications, transaction finance, corporate finance and treasury, information technology and risk management.

This Management Discussion and Analysis (MD&A) is intended to provide an overview of IO's financial activities for the year ended March 31, 2018, and should be read in conjunction with the financial statements for the year ended March 31, 2018 and related notes.

# OPERATING RESULTS

The MD&A discusses revenue and program expenses of the four lines of business (refer to Note 19 of the financial statements) and the corporate operating expenses by function compared to budget and prior year results, in accordance with how the business is managed and how operations are classified for planning and measuring performance.

# MAJOR PROJECTS

## YEAR-ENDED MARCH 31, 2018 VS. BUDGET

Major Projects reported a surplus of $1.6 million for the year, a favourable variance of $0.8 million compared to the budget surplus of $0.8 million.

*Revenues*

Major Projects provides professional services for AFP projects under either fixed price or cost based contracts. For fixed price contracts before reaching financial close, Major Projects recognizes revenue for project delivery fees when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. After financial close, revenue for project delivery fees are recognized based on the percentage of completion of internal work. Project transaction fees are recognized when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. At final completion, any remaining margin on the fixed price contract is recognized. For cost based contracts, revenue for project delivery and project transaction fees is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. Revenue for ancillary costs, included in recoverable advisory and other costs, is recognized on a cost recovery basis in the period such costs are incurred.

Revenues for the year, excluding project transaction fees and recoverable advisory and other costs, were $31.3 million, an unfavourable variance of $3.3 million compared to the budget of $34.6 million.

- The unfavourable variance was primarily due to lower project delivery fee revenue recognized on certain projects including the Regional Express Rail bundle and Macdonald Block. The lower revenue is a consequence of lower costs incurred during the year, which has an offsetting favourable variance. In addition, a provision of $0.4 million was recognized during the year for amounts outstanding from Toronto 2015 for the PanAm projects. The cumulative provision for the PanAm projects is $2.0 million.

- Project transaction fees were $10.4 million for the year. Generally project transaction fees for transportation projects are a flow through of the project transaction cost under expenses, which includes third party advisor costs that assist throughout the procurement process. On social projects transaction fees are fixed, as agreed to with the project sponsor. Transaction fee revenue is recognized based on cost recovery until a project achieves final completion, at which point any remaining transaction margin is recognized. During the year, one social project reached final completion - William Osler Health System - Peel Memorial, which is the primary reason for the favourable transaction margin of $0.6 million.
- Recoverable advisory and other costs are the ancillary costs on a project and vary depending on the nature and stage of the project. It is billed on a pass through basis with no impact to surplus/(deficit). Due to the nature and variability on annual spend, IO does not budget for ancillary costs or revenues.

Ancillary costs includes the following expenditures:

1. Technical advisors/consultants that assist throughout the life of the project (designers, architects, and engineers).
2. Contingencies for unforeseen expenditures and discretionary variations on civil and non-hospital social projects.

*Expenses*

Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction costs were $9.8 million for the year, a favourable variance of $5.1 million compared to the budget of $14.9 million. The overall transaction margin is explained in "project transaction fees" above.
- Recoverable advisory and other costs were $26.9 million for the year and were not budgeted. Recoverable advisory and other costs are explained in "recoverable advisory and other costs" above.

## YEAR-ENDED MARCH 31, 2018 VS. MARCH 31, 2017

Major Projects reported a surplus of $1.6 million for the year, an increase of $1.3 million compared to the surplus of $0.3 million in the prior year.

*Revenues*

Revenues for the year, excluding project transaction fees and recoverable advisory and other costs, were $31.3 million, a slight increase of $0.1 million compared to $31.2 million in the prior year.

- Project transaction fees were $10.4 million for the year, an increase of $2.9 million compared to $7.5 million in the prior year. The increase is primarily due to a larger number of AFP projects in the transaction stage compared to the prior year. Additionally, one project reached final completion - William Osler Health System – Peel Memorial, which resulted in a $0.6 million positive transaction margin.
- Recoverable advisory and other costs were $26.9 million for the year, an increase of $9.0 million compared to $17.9 million in the prior year. Recoverable advisory and other costs vary depending on the nature and stage of the project.

*Expenses*
Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction costs for the year were $9.8 million, an increase of $1.9 million compared to $7.9 million in the prior year. The increase is primarily due to a larger number of AFP projects in the transaction stage compared to the prior year.
- Recoverable advisory and other costs were $26.9 million for the year, an increase of $9.0 million compared to $17.9 million in the prior year. Recoverable advisory and other costs are explained in "recoverable advisory and other costs" above.

## REAL ESTATE

### YEAR-ENDED MARCH 31, 2018 VS. BUDGET

Real Estate reported a surplus of $1.5 million for the year, a favourable variance of $0.7 million compared to the budget surplus of $0.8 million.

*Revenues*
Revenues for the year were $62.0 million, a favourable variance of $4.6 million compared to the budget of $57.4 million.

- Management fees include funding from GREP for asset management, facilities management oversight and realty services in addition to revenue from the Hydro Lands transmission corridor program, and post-AFP operations. Management fees were $55.9 million for the year, an unfavourable variance of $0.3 million compared to the budget of $56.2 million, primarily due to a deferred start on certain projects where IO has received a letter of direction for real estate services (corporate realty projects).
- Project transaction fees were $4.4 million for the year. This revenue was a flow through of the project transaction costs under expenses, which includes third party advisor costs.

- Other income consists of lease commission rebates from CB Richard Ellis (CBRE). During the year $1.6 million in revenue was recognized, a favourable variance of $0.5 million compared to the budget of $1.1 million, primarily due to two large lease transactions that earned higher commissions than budgeted. As part of the outsourced CBRE contract, IO is entitled to 50% of the brokerage commission earned by CBRE after meeting all associated expenses.

*Expenses*
Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Sub-contracting fees are paid to CBRE who has been contracted by IO to provide operational facility management services. Sub-contracting fees for the year were $9.9 million, a $0.2 million favourable variance compared to the budget of $10.1 million.
- Project transaction costs were $4.4 million for the year and fully recoverable as explained in "project transaction fees" above.

## YEAR-ENDED MARCH 31, 2018 VS. MARCH 31, 2017

Real Estate reported a surplus of $1.5 million for the year, a decrease of $0.8 million compared to the surplus of $2.3 million in the prior year.

*Revenues*
Revenues for the year were $62.0 million, an increase of $3.6 million compared to $58.4 million in the prior year.

- Management fees were $55.9 million for the year, an increase of $1.3 million compared to $54.6 million in the prior year. This is primarily due to fees earned on the MacDonald Block project and new corporate realty projects.
- Project transaction fees were $4.4 million for the year, an increase of $3.7 million compared to $0.7 million in the prior year. The increase is primarily due to recovery of third party advisor costs on new corporate realty projects.
- Other income was $1.6 million for the year, a decrease of $1.4 million compared to $3.0 million in the prior year. Lease commission rebates vary depending on the volume and size of lease transactions.

*Expenses*
Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Sub-contracting fees paid to CBRE in the year were $9.9 million, an increase of $0.2 million compared to $9.7 million in the prior year.
- Project transaction costs for the year were $4.4 million, an increase of $3.7 million compared to $0.7 million in the prior year. Project transaction costs are explained in "project transaction fees" above.

# LENDING

## YEAR-ENDED MARCH 31, 2018 VS. BUDGET

Lending reported a surplus of $13.4 million for the year, an unfavourable variance of $0.1 million compared to the budget surplus of $13.5 million.

The net interest margin (NIM) for the year was $23.0 million, a favourable variance of $1.0 million compared to the budget of $22.0 million.

| ($ millions) | | Actual | Budget | Variance |
|---|---|---|---|---|
| Interest revenue | $ | **233.3** | 231.8 | 1.5 |
| Interest expense | | **(210.3)** | (209.8) | (0.5) |
| **NIM** | $ | **23.0** | 22.0 | 1.0 |

Net interest margin was $1.0 million favourable to budget primarily due to increased interest rates, which led to higher interest earned on bank accounts and decreased the net interest paid on swaps relative to budget.

Other income for the year was $1.4 million and consists of $0.7 million of penalty income for early loan repayments on two loans and $0.7 million in fees for the administration of three grant programs.

*Expenses*

Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- A specific loan valuation allowance of $4.5 million was recognized during the year for one loan whereby management identified a potential future exposure with respect to repayment.

## YEAR-ENDED MARCH 31, 2018 VS. MARCH 31, 2017

Lending reported a surplus of $13.4 million for the year, an increase of $1.9 million compared to the prior year surplus of $11.5 million.

NIM was $23.0 million, an increase of $1.0 million compared to the prior year of $22.0 million.

| ($ millions) | | March 31, 2018 | March 31, 2017 | Variance |
|---|---|---|---|---|
| Interest revenue | $ | **233.3** | 218.8 | 14.5 |
| Interest expense | | **(210.3)** | (196.8) | (13.5) |
| **NIM** | $ | **23.0** | 22.0 | 1.0 |

The increase in NIM by $1.0 million is primarily due to growth in the portfolio and higher interest rates, partially offset by early repayments of certain long term loans.

Other income for the year was $1.4 million, a decrease of $6.7 million compared to the prior year income of $8.1 million, primarily due to a large early loan repayment penalty of $6.5 million in the prior year.

IO's loan valuation allowance for the year was $4.5 million, a decrease of $6.7 million compared to the prior year of $11.2 million. In the prior year, an independent third party was retained to develop an analytical model to estimate the general loan valuation based on characteristics of the risk profiles of IO's lending sectors and market observable data. As a result, IO provisioned $11.2 million in the prior year. During the current year there was no change to the general loan provision; IO had one specific loan provision of $4.5 million in the current year.

*Expenses*

Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

# COMMERCIAL PROJECTS

## YEAR-ENDED MARCH 31, 2018 VS. BUDGET

Commercial Projects reported a deficit of $0.8 million for the year, a favourable variance of $0.9 million compared to the budget deficit of $1.7 million.

*Revenues*
Revenues for Commercial Projects are recognized on a cost recovery basis determined and agreed to at the inception of each project. Revenues for the year, excluding recoverable project transaction fees, were $2.9 million, a favourable variance of $0.7 million compared to the budget of $2.2 million, attributable to the following:

- Higher revenues on the Affordable Housing Lands Program Wave 1 and Wave 2 projects and the Ontario Place Revitalization project.
- Project transaction fees were $8.3 million for the year. Generally project transaction fees are a flow through of the project transaction costs under expenses, which includes third party advisor costs on the following projects: Ontario Place Urban Park & Waterfront and Affordable Housing Lands Program Wave 1.

*Expenses*
Refer to page 42 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction costs were $8.3 million for the year and fully recoverable as explained in "project transaction fees" above.

## YEAR-ENDED MARCH 31, 2018 VS. MARCH 31, 2017

Commercial Projects reported a deficit of $0.8 million for the year, an increase of $0.9 million compared to the deficit of $1.7 million in the prior year.

*Revenues*
Revenues for the year, excluding recoverable project transaction fees, were $2.9 million, an increase of $0.6 million compared to $2.3 million in the prior year.

- The higher revenues were primarily due to a new portfolio of work with the Ministry of Finance that includes the Affordable Housing Wave 1 and Wave 2 projects.
- Project transaction fees for the year were $8.3 million, a decrease of $10.2 million compared to $18.5 million in the prior year. Project transaction fees are generally flow through third party advisor costs and vary depending on the nature of the project.

*Expenses*
Refer below for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction costs for the year were $8.3 million, a decrease of $10.3 million compared to $18.6 million in the prior year. Project transaction costs are explained in "project transaction fees" above.

## CORPORATE OPERATING EXPENSES

### YEAR-ENDED MARCH 31, 2018 VS. BUDGET

*Salaries and benefits*
Salary and benefit expenses for the year were $69.4 million, a favourable variance of $0.4 million compared to the budget of $69.8 million. The average number of employees was 516 compared to the budget target of 524. The need for resources is evaluated on a case by case basis. Incremental positions are approved on the merits of a business case prepared to support the increase.

*General and administration expenses*
General and administration expenses for the year were $17.3 million, a favourable variance of $4.5 million compared to the budget of $21.8 million. The favourable variance is primarily due to lower spending on professional and consulting services across all business lines.

### YEAR-ENDED MARCH 31, 2018 VS. MARCH 31, 2017

*Salaries and benefits*
Salary and benefit expenses for the year were $69.4 million, an increase of $1.2 million compared to $68.2 million in the prior year. The average number of employees was 516 compared to the prior year of 502. The increase in the number of employees is to support project growth in the Major Projects and Real Estate business lines.

*General and administration expenses*
General and administration expenses for the year were $17.3 million, a decrease of $2.1 million compared to $19.4 million in the prior year. This is primarily due to lower expenses on information technology and professional and consulting services.

## STATEMENT OF FINANCIAL POSITION

*Cash*

At March 31, 2018, cash was $434.4 million, an increase of $23.6 million from a March 31, 2017 balance of $410.8 million. The increase is primarily due to operating activities as highlighted in the Statement of Cash Flows.

*Liquidity Reserve*

IO has a $400.0 million liquidity reserve funded by a $280.0 million subordinated 50-year loan from the Province of Ontario (Province) and a $120.0 million subordinated 20-year loan from the Ontario Clean Water Agency (refer to note 9 of the financial statements). Funds from the loans are invested in $222.5 million in cash and $177.5 million in investments, providing credit protection to all lenders.

*Restricted Cash*

At March 31, 2018, restricted cash was $136.9 million, an increase of $61.7 million from a March 31, 2017 balance of $75.2 million. The increase is primarily due to a net increase in the capital expenditure reserve fund for the Toronto Community Housing Corporation (TCHC) of $65.6 million, as a condition under their loan agreements.

*Accounts Receivable*

At March 31, 2018, accounts receivable were $45.3 million, an increase of $9.7 million from $35.6 million at March 31, 2017. The majority of accounts receivable are related to AFP projects. Accounts receivable over 90 days old total $7.4 million, including $4.0 million from Metrolinx for the Regional Express Rail bundle, $1.5 million from Toronto 2015 for PanAm projects, and $1.4 million from the Ministry of Tourism Culture and Sport for the Sheridan and Seneca College projects. The amounts outstanding from Metrolinx have been collected subsequent to March 31, 2018.

*Loans Receivable and Debt – Loan Program*

At March 31, 2018, loans receivable were $5,898.1 million, an increase of $236.5 million from $5,661.6 million at March 31, 2017. Loans issued during the year were $674.2 million and the amortization of concessionary loans of $5.9 million resulted in the increase in loans receivable, these were offset by $439.1 million of loan repayments and a loan valuation allowance of $4.5 million.

During the year, IO entered into the following transactions to refinance existing debt and fund the loan portfolio:

- Net repayment $200.0 million on the short-term revolving credit facility to the Province.
- Repaid $116.0 million on the Ontario Immigrant Investor Corporation loans as they came due.
- Repaid $300.0 million on the Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds to the Province using $160.0 million of the long-term non-revolving credit facility and $140.0 million of cash.
- Borrowed $845.9 million, net of repayments, on the long-term non-revolving credit facility to fund long term loans and to partly repay the OIPC/OILC bonds.

*Loan Valuation Allowance*

The loan valuation allowance is comprised of a general and a specific valuation provision. The general valuation allowance is a provision for losses on the existing loan portfolio which are considered to be likely in the future, but are not yet known and cannot be determined for any specific loan. The total general loan allowance was $18.5 million as at March 31, 2018, consistent with the balance as at March 31, 2017.

The specific valuation allowance is a provision of probable identifiable losses on existing loans. A specific loan allowance was recognized during the year for one loan whereby management identified a potential future exposure with respect to repayment of $4.5 million.

*Projects Receivable*

At March 31, 2018, projects receivable were $33.1 million, a decrease of $12.0 million compared to $45.1 million at March 31, 2017. For certain projects, based on the contract, IO does not invoice the project delivery fees until a set milestone is met, including projects such as Michael Garron Hospital and Centre for Addiction and Mental Health. During the year, invoices were issued for a number of hospital projects after milestones were achieved which resulted in the reduction of projects receivable.

*Investments*

At March 31, 2018, investments were $177.5 million, consistent with the balance as at March 31, 2017.

*Derivatives*

IO, being a borrower and a lender, uses derivatives to minimize the Agency's interest rate risk exposure related to its loan receivables and debt obligations. IO is hedged through interest rate swaps in which certain of its fixed rate loans receivable and fixed rate debt portfolio are swapped into floating rate instruments. All interest rate swap agreements are with the Province.

At March 31, 2018, the fair value of IO's derivative assets and liabilities were $207.7 million and $221.3 million, respectively. The difference between the two amounts of $13.6 million is presented on a net basis on the Statement of Financial Position and the Statement of Re-Measurement Gains and Losses as an accumulated unrealized loss. The unrealized loss decreased by $74.1 million from $87.7 million at March 31, 2017. This is primarily due to the increase in interest rates during the year in the Canadian yield curve. Since IO has a greater notional value of asset swaps compared to liability swaps, IO's swaps are more favourable in a rising interest rate environment, resulting in the large re-measurement gain during the year.

*Accounts Payable*

At March 31, 2018, accounts payable were $2.1 million, a decrease of $1.8 million from $3.9 million at March 31, 2017. The current outstanding balance includes $1.5 million for HST payable to the Canada Revenue Agency and $0.6 million payable to third party vendors.

*Accrued Liabilities*
At March 31, 2018, accrued liabilities were $27.4 million, an increase of $0.4 million from the March 31, 2017 balance of $27.0 million. The current outstanding balance includes the following: $17.0 million for corporate accruals including salaries/benefits, vacation, and other operating expenses, and $10.4 million for project advisory costs accruals.

*Liabilities Held in Trust*
At March 31, 2018, liabilities held in trust were $136.9 million, an increase of $61.7 million from $75.2 million at March 31, 2017. The increase is primarily due to a net increase in the capital expenditure reserve fund for TCHC.

*Deferred Revenue*
Based on agreements with certain clients, IO invoices and recovers project costs based on periodic payment schedules, irrespective of the work performed. The amounts are reported as deferred revenue until the work is performed and are recognized into revenue based on IO's revenue recognition policy. At March 31, 2018, deferred revenue was $40.4 million, an increase of $14.7 million from a March 31, 2017 balance of $25.7 million due to the timing of invoicing on certain projects relative to revenues incurred to date. The majority of deferred revenue are related to AFP projects.

# 2017-2018

## FINANCIAL STATEMENTS

For the year ended March 31, 2018

June 21, 2018

## Independent Auditor's Report

**To the Directors of**
**Ontario Infrastructure and Lands Corporation**

We have audited the accompanying financial statements of Ontario Infrastructure and Lands Corporation, which comprise the statement of financial position as at March 31, 2018 and the statement of operations and accumulated surplus, re-measurement gains and losses, changes in net financial assets 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 financial statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

*PricewaterhouseCoopers LLP*
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*
*T: +1 416 863 1133, F: +1 416 365 8215*

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation as at March 31, 2018 and the results of its operations, its re-measurement gains and losses, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

The accompanying financial statements of Ontario Infrastructure and Lands Corporation have been prepared in accordance with accounting principles for governments recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada and, where applicable, the recommendations of the Accounting Standards Board of the Chartered Professional Accountants of Canada and are the responsibility of management.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee. The Audit Committee reviews the financial statements and recommends them to the Board for approval.

The financial statements have been audited by PricewaterhouseCoopers LLP. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's report outlines the scope of the Auditor's examination and opinion.

On behalf of management,

**Ehren Cory**
President and Chief Executive Officer

**Krishnan Iyer**
Executive Vice President, Lending and Chief Financial Officer

# STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands of dollars)

| | March 31 2018 | | March 31 2017 (Note 20) |
|---|---|---|---|
| **Financial assets** | | | |
| Cash | $ | 434,441 | $ | 410,784 |
| Restricted cash (Note 2 & 18) | | 136,894 | | 75,244 |
| Accounts receivable (Note 3) | | 45,319 | | 35,620 |
| Interest receivable | | 45,947 | | 45,906 |
| Investment income receivable | | 2,037 | | 1,779 |
| Loans receivable (Note 4) | | 5,898,136 | | 5,661,622 |
| Projects receivable (Note 6) | | 33,099 | | 45,086 |
| Investments (Note 7) | | 177,505 | | 177,505 |
| | | 6,773,378 | | 6,453,546 |
| **Liabilities** | | | | |
| Accounts payable | | 2,149 | | 3,891 |
| Accrued liabilities | | 27,408 | | 27,024 |
| Liabilities held in trust (Note 2 & 18) | | 136,894 | | 75,244 |
| Interest payable | | 66,159 | | 67,302 |
| Derivatives (Note 5 & 21) | | 13,628 | | 87,748 |
| Deferred revenue | | 40,421 | | 25,696 |
| Debt - loan program (Note 9a) | | 5,900,028 | | 5,669,159 |
| Capital - loan program (Note 9b) | | 399,681 | | 399,681 |
| | | 6,586,368 | | 6,355,745 |
| **Net financial assets** | | 187,010 | | 97,801 |
| **Non-financial assets** | | | | |
| Tangible capital assets (Note 10) | | 2,586 | | 1,934 |
| | | 189,596 | | 99,735 |
| **Accumulated surplus** | | 203,224 | | 187,483 |
| **Accumulated re-measurement losses** | | (13,628) | | (87,748) |
| | $ | 189,596 | $ | 99,735 |

Contingencies (Note 16)
Commitments (Note 17)

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

Approved

Board Chair

Director, Chair Audit Committee

# STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended March 31 (in thousands of dollars)

| | 2018 Budget | **2018** | 2017 |
|---|---|---|---|
| Revenues | | | |
| Interest revenue (Note 11) | $ 231,818 | **$ 233,278** | $ 218,812 |
| Project delivery fees | 36,800 | **34,240** | 33,553 |
| Project transaction fees | 14,855 | **23,193** | 26,740 |
| Management fees | 56,232 | **55,928** | 54,633 |
| Recoverable advisory and other costs | - | **26,924** | 17,946 |
| Other income | 1,547 | **3,021** | 11,114 |
| | 341,252 | **376,584** | 362,798 |
| Expenses | | | |
| Salaries and benefits | 69,774 | **69,389** | 68,164 |
| General and administration (Note 12) | 21,780 | **17,309** | 19,386 |
| Interest expense (Note 11) | 209,795 | **210,278** | 196,769 |
| Project transaction costs | 14,855 | **22,553** | 27,198 |
| Recoverable advisory and other costs | - | **26,924** | 17,946 |
| Sub-contracting fees | 10,088 | **9,890** | 9,678 |
| Loan valuation allowance | 1,500 | **4,500** | 11,231 |
| | 327,792 | **360,843** | 350,372 |
| Surplus | 13,460 | **15,741** | 12,426 |
| Accumulated surplus, beginning of year | 187,483 | **187,483** | 175,057 |
| Accumulated surplus, end of year | $ 200,943 | **$ 203,224** | $ 187,483 |

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

# STATEMENT OF RE-MEASUREMENT GAINS AND LOSSES

For the year ended March 31 (in thousands of dollars)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Accumulated re-measurement losses, beginning of year | $ | (87,748) | $ | (147,778) |
| Realized losses - reclassified to the Statement of Operations | | 30,681 | | 39,562 |
| Re-measurement gains | | 43,439 | | 20,468 |
| Net re-measurement gains in the year | | 74,120 | | 60,030 |
| Accumulated re-measurement losses, end of year | $ | (13,628) | $ | (87,748) |

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

For the year ended March 31 (in thousands of dollars)

| | 2018 | 2017 |
|---|---|---|
| Surplus | $ 15,741 | $ 12,426 |
| | | |
| Acquisition of tangible capital assets | (2,192) | (514) |
| Amortization of tangible capital assets | 1,540 | 1,622 |
| Net re-measurement gains in the year | 74,120 | 60,030 |
| | | |
| Net change in net financial assets | 89,209 | 73,564 |
| Net financial assets at beginning of year | 97,801 | 24,237 |
| Net financial assets at end of year | $ 187,010 | $ 97,801 |

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

For the year ended March 31 (in thousands of dollars)

| | 2018 | 2017 (Note 20) |
|---|---|---|
| **Operating activities** | | |
| Surplus | $ 15,741 | $ 12,426 |
| Items not requiring a current cash outlay: | | |
| Loan valuation allowance | 4,500 | 11,231 |
| Amortization of deferred concession costs | (5,913) | (6,580) |
| Amortization of tangible capital assets | 1,540 | 1,622 |
| | 15,868 | 18,699 |
| Changes in working capital items: | | |
| (Increase)/decrease in restricted cash | (61,650) | 173,014 |
| (Increase)/decrease in accounts receivable | (9,699) | 5,280 |
| (Increase)/decrease in interest receivable | (41) | 18,815 |
| Decrease in projects receivable | 11,987 | 757 |
| Decrease in accounts payable | (1,742) | (2,220) |
| Increase/(decrease) in accrued liabilities | 384 | (644) |
| Increase/(decrease) in liabilities held in trust | 61,650 | (173,014) |
| Increase in deferred revenue | 14,725 | 8,857 |
| Cash provided by operating activities | 31,482 | 49,544 |
| **Capital activities** | | |
| Acquisition of tangible capital assets | (2,192) | (514) |
| Cash used in capital activities | (2,192) | (514) |
| **Investing activities** | | |
| (Increase)/decrease in investment income receivable | (258) | 72 |
| Issuance of loans receivable | (674,160) | (810,290) |
| Loan repayments | 439,059 | 369,193 |
| Cash used in investing activities | (235,359) | (441,025) |
| **Financing activities** | | |
| Decrease in interest payable | (1,143) | (6,590) |
| Repayment of short term revolving credit facility | (200,000) | (115,000) |
| Debt issuances | 924,321 | 819,408 |
| Debt repayments | (493,452) | (780,118) |
| Cash provided by/(used in) financing activities | 229,726 | (82,300) |
| **Net increase/(decrease) in cash** | 23,657 | (474,295) |
| **Cash, beginning of year** | 410,784 | 885,079 |
| **Cash, end of year** | $ 434,441 | $ 410,784 |

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

## NATURE OF THE CORPORATION

Ontario Infrastructure and Lands Corporation (Infrastructure Ontario, Agency, Corporation) is a Crown corporation reporting to the Minister of Infrastructure (Minister) and is classified by the Government of the Province of Ontario (Province, Government) as an operational enterprise.

The mandate of Infrastructure Ontario includes the following:

- To provide financing for infrastructure purposes to municipalities and to eligible public organizations;
- To provide the Minister with advice and services, including project management, contract management and development, related to public works for which the Minister is responsible;
- To provide the Government with advice and services, including project management, contract management and development, related to public works for which the Minister is not responsible, when directed to do so in writing by the Minister;
- To provide financial management for public works managed by the Ministry of Infrastructure (Ministry) or by a Crown agency for which the Minister is responsible;
- To carry out the powers, duties and functions delegated by the Minister to the Corporation under the Ministry of Infrastructure Act, 2011;
- To provide advice and services related to real property to public sector organizations when directed to do so in writing by the Minister;
- To provide advice and services to the Minister or other members of the executive council, on financial, strategic or other matters involving the Government, when directed to do so in writing by the Minister;
- To implement or assist in the implementation of transactions involving the Government, when directed to do so in writing by the Minister; and
- To provide advice and services, including project management and contract management services related to infrastructure projects in Ontario that are not public works, when directed to do so in writing by the Minister.

As a Crown corporation, Infrastructure Ontario is exempt from federal and provincial income taxes under paragraph 149(1) (d) of the Income Tax Act of Canada. Infrastructure Ontario is subject to Harmonized Sales Tax (HST).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting**
These financial statements are prepared in accordance with Canadian Public Sector Accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

**Management estimates**
The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Key areas where management has made estimates are in the percentage of completion for the determination of revenue from project delivery fees, the loan portfolio valuation allowance and the fair value of derivatives. Actual results could differ from those and other estimates, the impact of which would be recorded in future periods.

**Financial instruments**
Infrastructure Ontario's financial assets include cash, restricted cash, accounts receivable, interest receivable, investment income receivable, loans receivable, projects receivable, and investments. Infrastructure Ontario's financial liabilities include accounts payable, accrued liabilities, liabilities held in trust, interest payable, derivatives, deferred revenue and the debt supporting the loan program.

*Initial recognition and measurement*
All financial assets and liabilities are initially recognized at fair value. Fair value is the amount of the consideration that would be agreed on in an arm's length transaction between knowledgeable willing parties, who are under no compulsion to act. Financial instruments are classified at initial recognition as either (i) fair value or (ii) cost or amortized cost. Derivatives are classified in the fair value category. All other financial instruments are classified in the cost or amortized cost category.

The amortized cost of the 2003-04 program loans (see Note 4) issued by Infrastructure Ontario, which were considered to have concessionary terms, was determined as the present value of the future cash flows of the loan, and discounted using Infrastructure Ontario's cost of borrowing. The difference between the face value of the loan and its present value is, in substance, a grant. The grant portion is recognized as a concession cost at the date of issuance of the loan and amortized to match the underlying interest subsidy, over the term of the loan.

Transaction costs for financial instruments measured at cost or amortized cost are added to or netted against the carrying value of the financial asset or financial liability, respectively.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification as described below:

i. *Financial instruments at fair value*
   Financial instruments at fair value are re-measured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the Statement of Re-Measurement Gains and Losses and are subsequently reclassified to the Statement of Operations upon disposal or settlement.

Infrastructure Ontario uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: valuation techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The fair value of financial instruments not traded in an active market is determined by appropriate valuation techniques, including forward pricing and swap models, using present value calculations. The models incorporate various inputs including forward interest rate curves.

ii. *Financial instruments at cost or amortized cost*
Financial instruments not measured at fair value are measured at cost or amortized cost.

For financial assets and financial liabilities measured at amortized cost, interest is recorded using the effective interest rate (EIR) method. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period.

*Impairment*

i. *Loss in value of an investment (not quoted in an active market)*
A write-down is recognized in the Statement of Operations and Accumulated Surplus when there has been a loss in the value of the investment considered as an 'other than temporary' loss. A loss is considered 'other than temporary' when the carrying value of the investment exceeds its anticipated value for a prolonged period of time. If the anticipated value of the portfolio investment subsequently increases, the write-down to the statement of operations is not reversed.

ii. *Loans receivable impairment*
A loan valuation allowance is established against the loan portfolio after management's review of existing economic, industry and portfolio conditions across the different loan segments. The general valuation allowance is underpinned by a model in which risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. A specific valuation allowance is also established in instances of known borrower credit deterioration on the expected non-recoverable portion of the loan receivable.

**Derivative financial instruments**
Infrastructure Ontario uses derivative financial instruments, specifically interest rate swaps, to manage its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered and subsequently re-measured to fair value at each reporting date. Derivatives are carried as financial assets when the fair value is in a receivable position and as financial liabilities when the fair value is in a payable position.

Any unrealized gains or losses arising from changes in the fair value of derivatives are recorded in the Statement of Re-Measurement Gains and Losses and are subsequently re-classified to the Statement of Operations and Accumulated Surplus upon disposal or settlement.

**Tangible capital assets**
Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets beginning in the fiscal year of acquisition, with a half-year provision in the year of acquisition and a half-year in the year of disposal. The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Computer equipment | 3 years |
| Software | 5 years |
| Furniture, fixtures and office equipment | 10 years |
| Leasehold improvements | 10 years |

**Impairment of tangible capital assets**
The Agency reviews the carrying value of tangible capital assets for potential impairment when there is evidence that events or changes in circumstances exist, that indicate a tangible capital asset no longer contributes to the Government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. In these circumstances, the cost of the tangible capital asset is reduced to reflect the decline in the asset's value. No such impairment losses have been incurred to date.

**Revenue recognition**
*Interest revenue*
Interest on investments and loans receivable are recognized using the effective interest rate method.

*Project delivery fees and project transaction fees*
Project delivery fees represent the recovery of IO's staff salaries and benefits, and general and administration costs in delivering services. Project transaction fees represent the recovery of external advisor costs.

Infrastructure Ontario provides professional services under either cost based or fixed price contracts. For cost based contracts, revenue is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. Revenue from fixed price contracts is recorded using the percentage of completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs. Losses, if any, on fixed price contracts are recognized during the period they are identified. Deferred revenue is set up when amounts billed on a project exceed the revenue recognized under both cost based and fixed price contracts.

*Management fees and recoverable advisory costs*
Management fees and recoverable advisory costs are recognized as revenue when an arrangement is in place, services are provided and collectibility is reasonably assured.

## 2. RESTRICTED CASH

Restricted cash includes funds held in trust for Infrastructure Ontario's lending clients of $121.9 million (2017 - $55.4 million) and project construction consortiums of $15.0 million (2017 - $19.8 million), detailed further in Note 18.

## 3. ACCOUNTS RECEIVABLE

| ($ thousands) | | 2018 | | 2017 |
|---|---|---|---|---|
| Net trade accounts receivable | $ | 44,077 | $ | 34,713 |
| HST receivable | | 1,242 | | 907 |
| | $ | 45,319 | $ | 35,620 |

## 4. LOANS RECEIVABLE

| ($ thousands) | 2018 | Interest % | 2017 | Interest % |
|---|---|---|---|---|
| **Construction advances** | | | | |
| Infrastructure renewal loan program | $ 157,081 | 1.43-2.64 | $ 349,328 | 1.45-1.93 |
| **Debentures receivable** | | | | |
| Concessionary loan program | | | | |
| Maturity terms: | | | | |
| 6 to 10 years | 5,835 | 2.08-2.51 | 14,150 | 2.08-2.71 |
| 11 to 15 years | 20,046 | 2.28-2.67 | 25,385 | 2.28-2.67 |
| 16 to 20 years | 211,009 | 2.36-2.95 | 234,136 | 2.36-2.95 |
| Greater than 20 years | 55,713 | 2.52-3.05 | 58,536 | 2.52-3.05 |
| | 292,603 | | 332,207 | |
| Infrastructure renewal loan program | | | | |
| Maturity terms: | | | | |
| 1 to 5 years | 37,626 | 1.18-3.56 | 45,048 | 1.18-4.55 |
| 6 to 10 years | 638,127 | 1.52-5.73 | 665,754 | 1.52-5.73 |
| 11 to 15 years | 636,208 | 2.24-5.26 | 678,568 | 2.24-5.26 |
| 16 to 20 years | 1,441,526 | 2.71-5.89 | 1,411,196 | 2.71-5.89 |
| Greater than 20 years | 2,748,604 | 2.77-5.91 | 2,234,573 | 2.77-5.91 |
| | 5,502,091 | | 5,035,139 | |
| **Total** | 5,951,775 | | 5,716,674 | |
| **Deferred costs on concessionary loans** | | | | |
| Deferred costs, beginning of year | (36,503) | | (43,083) | |
| Amortization of concession costs | 5,913 | | 6,580 | |
| Deferred costs, end of year | (30,590) | | (36,503) | |
| Loan valuation allowance | (23,049) | | (18,549) | |
| **Loans receivable** | $ 5,898,136 | | $ 5,661,622 | |

Construction advances are loans due from municipalities, other public sector bodies and not for profit entities. The interest rate on these construction loans is 30 day bankers' acceptances plus a fixed spread in basis points depending on the risk categorization of the counterparty. These loans are of a shorter term than the debentures (usually less than five years), and are repaid when construction is complete.

Debentures receivable are due from municipalities, other public sector clients and not for profit entities, with loan maturity terms ranging from four to forty years since inception.

Infrastructure Ontario manages its credit risk with the current loan portfolio through various provisions in the loan agreements. The Agency has an intercept mechanism with the Province, which allows for funds owing to a borrower from the Province to be redirected to Infrastructure Ontario. Loans to non-government borrowers are subject to restrictive covenants on assets and the borrower is required to provide security and in some cases, provide loan insurance.

The loan valuation allowance is based on an assessment of existing economic, industry and portfolio conditions which may indicate that a loan is impaired or losses will be incurred. At March 31, 2018, Infrastructure Ontario has a loan valuation allowance of $23.0 million (2017 - $18.5 million).

## 5. DERIVATIVES

Infrastructure Ontario operates within strict risk limits to ensure exposure to interest rate risk is managed in a prudent and cost effective manner. A variety of strategies are used to manage this risk, including the use of interest rate derivatives. Infrastructure Ontario does not use derivatives for speculative purposes, and no new derivative contracts have been initiated since Infrastructure Ontario entered into back to back loans with the Province in April 2015 (Note 9).

Derivatives are financial contracts, the value of which is derived from underlying instruments. Infrastructure Ontario, which is a borrower and lender, uses derivatives to create hedges for instruments with differing maturity dates. The interest rate variability risk is managed through interest rate swaps, which are legal contracts under which Infrastructure Ontario agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Interest rate swaps allow Infrastructure Ontario to more closely match its existing loans receivable and debt obligations and thereby effectively convert them into instruments with terms that minimize the Agency's interest rate risk exposure. Infrastructure Ontario has swapped certain of its fixed rate loans receivable and fixed rate debt portfolio into floating rate instruments.

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2018, based on the notional amounts of the contracts. The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Statement of Financial Position. They represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows of such instruments.

| | | Maturity | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | | Within 1 Year | Within 2 to 5 Years | Within 6 to 10 Years | Within 11 to 15 Years | Over 15 Years | | Total Notional Value |
| Liability swap | $ | 257,100 | 912,482 | 310,000 | - | 852,857 | $ | 2,332,439 |
| Asset swap | $ | 267,827 | 1,089,816 | 977,759 | 565,280 | 725,422 | $ | 3,626,104 |

Derivatives are recorded at fair value as at March 31, 2018 resulting in derivative assets of $207.7 million, derivative liabilities of $221.3 million which are presented on a net basis on the Statement of Financial Position resulting in net derivative liabilities of $13.6 million and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $13.6 million (2017 – derivative assets of $283.3 million, derivative liabilities of $371.0 million, net derivative liabilities of $87.7 million on the Statement of Financial Position and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $87.7 million). Fair values were determined using level 2 basis of valuation as defined in Note 1.

The fair values of these derivatives were determined using pricing models, with market observable inputs which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve underlying the positions. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments.

As at March 31, 2018, all interest rate swap agreements are with the Province.

## 6. PROJECTS RECEIVABLE

Projects receivable are amounts which have been recognized as revenue either on a percentage of completion method or when the recoverable expenses were incurred, but have not yet been invoiced. Certain projects receivable, will not be invoiced until the completion of the project. Projects receivable are due from various Provincial ministries, agencies and other public sector organizations.

## 7. INVESTMENTS

Investments consist of bonds carried at cost. As at March 31, 2018, the interest rates on these investments ranged from 2.10% to 4.40% (2017 – 2.10% to 4.40%) with maturities from September 2018 to June 2024.

## 8. OFA CREDIT FACILITY

Infrastructure Ontario has a 5 year subordinated revolving credit facility of up to $100.0 million with the Ontario Financing Authority (OFA), an agency of the Province, to provide working capital for the Alternative Financing and Procurement program. Advances are to be repaid on completion of projects. As at March 31, 2018, the full balance of the facility remains undrawn.

## 9a. DEBT-LOAN PROGRAM

All facilities are available exclusively for the lending program.

| ($ thousands) | | 2018 | 2018 Interest % | | 2017 | 2017 Interest % |
|---|---|---|---|---|---|---|
| **Program funding** | | | | | | |
| **Senior debt** | | | | | | |
| Infrastructure Renewal Bonds | $ | **300,000** | **4.70** | $ | 300,000 | 4.70 |
| **Subordinate debt** | | | | | | |
| Short-term revolving credit facility | | **170,000** | **1.22-1.44** | | 370,000 | 0.68-0.69 |
| Ontario Immigrant Investor Corporation loans | | | | | | |
| Fixed | | **187,898** | **1.86-2.64** | | 195,440 | 1.86-2.64 |
| Floating | | **46,718** | **1.55** | | 155,144 | 1.55 |
| OIPC/OILC bonds | | | | | | |
| Fixed | | **2,015,000** | **2.20-4.96** | | 2,315,000 | 2.02-4.96 |
| Floating Rate Notes | | **300,000** | **1.89-1.95** | | 300,000 | 1.10-1.16 |
| Long-term non-revolving credit facility | | | | | | |
| Fixed | | **2,266,105** | **1.21-3.58** | | 1,580,243 | 1.21-3.58 |
| Floating Rate Notes | | **620,000** | **2.00-2.18** | | 460,000 | 1.39 |
| | | **5,905,721** | | | 5,675,827 | |
| Debt issue costs | | **(5,693)** | | | (6,668) | |
| | $ | **5,900,028** | | $ | 5,669,159 | |

## 9b. CAPITAL-LOAN PROGRAM

| | | 2018 | 2018 Interest % | | 2017 | 2017 Interest % |
|---|---|---|---|---|---|---|
| **Capital funding** | | | | | | |
| Province of Ontario loan | | **279,681** | **1.35** | | 279,681 | 0.67 |
| Ontario Clean Water Agency loan | | **120,000** | **1.54** | | 120,000 | 0.91 |
| | $ | **399,681** | | $ | 399,681 | |

All capital funding and subordinated debt is subordinate to the senior debt and rank pari passu amongst each other.

The following table illustrates the debt principal and estimated interest payments for the next five years and thereafter:

| ($ thousands) | | Amount |
|---|---|---|
| Fiscal year | | |
| 2018-2019 | $ | 961,532 |
| 2019-2020 | | 318,708 |
| 2020-2021 | | 534,131 |
| 2021-2022 | | 242,933 |
| 2022-2023 | | 601,891 |
| Thereafter | | 5,931,469 |
| | **$** | **8,590,664** |

### Infrastructure Renewal Bonds

On April 19, 2007, Infrastructure Ontario issued $300 million of Infrastructure Renewal Bonds. The bonds bear interest at 4.70% per annum and mature on June 1, 2037.

### Short-term Revolving Credit Facility

Effective May 2014, Infrastructure Ontario issues short term notes under a short term revolving credit facility to fund its short term construction loans. The revolving credit facility with the Province is authorized to issue a maximum of $900 million for terms ranging from three months to one year. As at March 31, 2018, maturities ranged from April 2018 to June 2018, while interest on the notes ranged from 1.22% to 1.44% (2017 – 0.68% to 0.69%).

### Ontario Immigrant Investor Corporation Loans

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province, provided five-year subordinated loans. The loans are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future senior obligations of Infrastructure Ontario.

As at March 31, 2018, interest on fixed rate bonds ranged between 1.86% and 2.64% (2017 – 1.86% to 2.64%) compounded semi-annually and paid on maturity. Maturities ranged from April 2018 to July 2019. Interest on bonds bearing a variable rate of interest is reset and compounded quarterly with a floor rate of 1.55% (2017 – 1.55%) per annum. Maturities ranged from April 2018 to January 2019.

### OIPC / OILC Bonds

Infrastructure Ontario issued Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds to the Province for the purpose of funding its loan program. The bonds are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future senior obligations of Infrastructure Ontario.

As at March 31, 2018, interest on fixed rate bonds ranged from 2.20% to 4.96% (2017 – 2.02% to 4.96%) per annum and maturities ranged from September 2018 to June 2045. Interest is paid semi-annually on these bonds until maturity. The Floating Rate Notes (FRN) bear interest from three month Canadian Dollar Offered Rate (CDOR) plus 16 basis points to three month CDOR plus 22 basis points and the maturity of the notes is June 30, 2018. Interest is reset and paid quarterly until the maturity of the FRN's.

**Long-term Non-Revolving Credit Facility**

In April 2015, Infrastructure Ontario began funding long term loans on a back to back basis directly with the Province through a long term non-revolving credit facility. The new debt structures mirror the underlying loans receivable they fund and have similar terms including maturity, payment frequency and type of amortization. This funding structure creates a match between the assets and liabilities and eliminates the need to use derivatives to hedge interest rate risks. In November 2016, Infrastructure Ontario was approved to borrow an additional $2.5 billion from the Province for the purposes of funding the loan program from November 2016 to November 2018. As at March 31, 2018, $1.1 billion of the facility is available and undrawn.

As at March 31, 2018, interest with fixed rates on the back to back loans ranged from 1.21% to 3.58% (2017 – 1.21% to 3.58%) and maturities ranged from May 2019 to February 2048. The FRNs bear interest from three month CDOR plus 27 basis points to three month CDOR plus 45 basis points and the maturity of the notes ranged from September 2022 to June 2025. Interest is reset and paid quarterly until the maturity of the FRN's.

**Province of Ontario Loan**

The Province provided Infrastructure Ontario with a 50 year subordinated loan of approximately $280 million in exchange for a promissory note that matures on March 31, 2053. The interest on the note is reset quarterly at the Province's three-month Treasury bill rate and payable quarterly. On March 31, 2018, interest on the note was reset at 1.35% (2017 – 0.67%).

**Ontario Clean Water Agency Loan**

The Ontario Clean Water Agency (OCWA), an agency of the Province, provided a twenty-year subordinated loan of $120 million to Infrastructure Ontario secured by a promissory note due on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the one month CDOR payable quarterly. On March 31, 2018, interest on the note was reset at 1.54% (2017 – 0.91%).

Together, the Province and OCWA loans provide Infrastructure Ontario with long term subordinate funding which provides: (i) credit protection to holders of senior debt such as Infrastructure Renewal Bonds; and (ii) a liquidity backstop for Infrastructure Ontario's financing needs.

## 10. TANGIBLE CAPITAL ASSETS

| | Year ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ thousands) | | Computer Equipment | Software | Furniture, Fixtures and Office Equipment | Leasehold Improvements | | Total |
| **Cost** | | | | | | | |
| Balance, April 1, 2017 | $ | 17,665 | 4,153 | 2,119 | 9,828 | $ | 33,765 |
| Additions | | 1,291 | 260 | 137 | 504 | | 2,192 |
| Balance, March 31, 2018 | | 18,956 | 4,413 | 2,256 | 10,332 | | 35,957 |
| **Accumulated amortization** | | | | | | | |
| Balance, April 1, 2017 | | 16,760 | 4,153 | 1,989 | 8,929 | | 31,831 |
| Additions | | 771 | 26 | 22 | 721 | | 1,540 |
| Balance, March 31, 2018 | | 17,531 | 4,179 | 2,011 | 9,650 | | 33,371 |
| **Net book value - March 31, 2018** | $ | 1,425 | 234 | 245 | 682 | $ | 2,586 |

| | Year ended March 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ thousands) | | Computer Equipment | Software | Furniture, Fixtures and Office Equipment | Leasehold Improvements | | Total |
| **Cost** | | | | | | | |
| Balance, April 1, 2016 | $ | 17,286 | 4,153 | 1,984 | 9,828 | $ | 33,251 |
| Additions | | 379 | - | 135 | - | | 514 |
| Balance, March 31, 2017 | | 17,665 | 4,153 | 2,119 | 9,828 | | 33,765 |
| **Accumulated amortization** | | | | | | | |
| Balance, April 1, 2016 | | 15,880 | 4,153 | 1,949 | 8,227 | | 30,209 |
| Additions | | 880 | - | 40 | 702 | | 1,622 |
| Balance, March 31, 2017 | | 16,760 | 4,153 | 1,989 | 8,929 | | 31,831 |
| **Net book value - March 31, 2017** | $ | 905 | - | 130 | 899 | $ | 1,934 |

## 11. INTEREST INCOME (EXPENSE)

| ($ thousands) | | 2018 | | 2017 |
|---|---|---|---|---|
| Interest revenue | $ | **233,278** | $ | 218,812 |
| Interest expense | | **(210,278)** | | (196,769) |
| Net interest margin | $ | **23,000** | $ | 22,043 |

The breakdown of interest expense on debt is as follows:

| | | | | |
|---|---|---|---|---|
| Program funding | | | | |
| Infrastructure Renewal Bonds | $ | **(14,100)** | $ | (14,048) |
| Short-term revolving credit facility | | **(2,273)** | | (3,095) |
| Ontario Immigrant Investor Corporation Loans | | **(6,330)** | | (9,395) |
| OIPC/OILC Bonds | | **(83,587)** | | (86,776) |
| Long-term non-revolving credit facility | | **(68,358)** | | (38,610) |
| | | **(174,648)** | | (151,924) |
| Interest rate swap net payment | | **(30,681)** | | (39,562) |
| Debt issue cost amortization | | **(975)** | | (1,070) |
| | | **(206,304)** | | (192,556) |
| Capital funding | | | | |
| Province of Ontario loan | | **(2,549)** | | (3,172) |
| Ontario Clean Water Agency loan | | **(1,425)** | | (1,041) |
| | | **(3,974)** | | (4,213) |
| Total interest expense | $ | **(210,278)** | $ | (196,769) |

The reconciliation of cash interest received and paid to net interest margin is as follows:

| | | | | |
|---|---|---|---|---|
| Cash interest received | $ | **226,530** | $ | 209,134 |
| Cash interest paid | | **(209,852)** | | (202,651) |
| | | **16,678** | | 6,483 |
| Non-cash interest | | | | |
| Amortization of loan concession costs (Note 4) | | **5,913** | | 6,580 |
| Other non-cash interest | | **409** | | 8,980 |
| Net interest margin | $ | **23,000** | $ | 22,043 |

Other non-cash interest includes net interest accrued (revenue and expense), and the amortization of debt issue costs.

## 12. GENERAL AND ADMINISTRATION EXPENSES

| ($ thousands) | 2018 Budget | **2018** | 2017 |
|---|---|---|---|
| Information technology | $ 6,192 | **$ 6,234** | $ 7,839 |
| Premises | 5,877 | **5,536** | 4,825 |
| Professional and consulting services | 5,994 | **2,547** | 3,564 |
| Office and administration | 1,521 | **1,262** | 1,323 |
| Communications | 340 | **190** | 213 |
| Amortization | 1,856 | **1,540** | 1,622 |
| | $ 21,780 | **$ 17,309** | $ 19,386 |

## 13. RELATED PARTY TRANSACTIONS

The Agency is economically dependent on the Province as a significant portion of its revenue is received from the Province for the provision of services to various Ontario Crown Agencies and Ministries, including the Ministry of Health and Long Term Care, the Ministry of the Attorney General, the Ministry of Government Services, the Ministry of Community Safety and Correctional Services, and the Ministry of Transportation, in addition to the Ministry of Infrastructure.

Infrastructure Ontario's prime sources of revenue from the Province are:

1. Project delivery fees and project transaction fees
   Fees based on a percentage of project costs or on a cost recovery basis charged for services, including project and contract management, provided to various Ontario Crown Agencies and Ministries.

2. Management fees
   Fees charged for services, including property and project management, provided to the Ministry's General Real Estate Portfolio.

3. Recoverable advisory costs
   Third party adviser services provided to various Ministries and Ontario Crown Agencies on a cost recovery basis.

Infrastructure Ontario has interest bearing loans from the Province, OCWA, OIIC and the OFA (Note 8 and 9).

## 14. FUTURE EMPLOYEE BENEFITS

The Agency provides a defined contribution pension plan for certain full-time employees. The Agency's contribution to this plan for the year ended March 31, 2018 was $3.2 million (2017 – $3.0 million).

The Agency provides pension benefits to certain of its full-time employees through participation in the Public Service Pension Plan, which is a multi employer defined benefit plan established by the Province. The contribution to the pension plan of $0.4 million for the year ended March 31, 2018 (2017 – $0.4 million) is based on formulas set by the Ontario Pension Board and has been expensed. The cost of post-retirement, non-pension employee benefits for these employees is paid by the Ministry of Government Services and is not included in the financial statements.

## 15. RISK MANAGEMENT

The principal risks that Infrastructure Ontario is exposed to as a result of holding financial instruments are credit, market, liquidity and interest rate risks. The Credit and Real Estate Committee of the Board of Directors reviews policies for managing each of these risks, which are summarized below.

**Credit risk**

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its financial contractual obligations to Infrastructure Ontario. The Agency is exposed to credit risk on cash accounts, investments and receivables, but primarily on loans receivable. The Agency manages credit risk through the implementation of policies and review processes.

*Credit risk – loans receivable*

Oversight of the credit risk of the lending program is the primary concern of the Credit and Real Estate Committee of the Board of Directors.

The credit risk policy ensures loan amounts are commensurate with both the borrower's ability to service debt and Infrastructure Ontario's own risk tolerance. The credit risk policy establishes principles for evaluating credit risk for each sector based on an established set of risk factors. Separate underwriting and credit functions exist to ensure an independent review and challenge through the adjudication process. Due diligence is conducted and a final scoring and recommendation for each applicant is presented to the management credit review committee and to the Board of Directors for approval, if necessary, based on Infrastructure Ontario's delegation of authority.

Infrastructure Ontario has a risk based loan review process that covers all lending sectors and provides early identification of possible changes in the credit worthiness of counterparties. The objectives of the loan review are to: assess the status of funded projects in construction; ensure payment and covenant compliance over the term of the loan; initiate timely corrective action to minimize any potential credit loss; and escalate potential loan repayment issues to the management credit review committee and the Board of Directors.

Infrastructure Ontario's maximum exposure to credit risk on loans receivable, without taking into account any collateral held or other credit enhancements, as at March 31, 2018 was $5,898.1 million.

Infrastructure Ontario classifies and manages its loans by tiers. Tier 1 borrowers have a tax base and/or receive provincial transfers which provide a strong source of debt repayment. Tier 2 borrowers are in sectors that are either regulated or entitled to government based revenue contracts and therefore have a stable source of debt repayment. Tier 3 borrowers are organizations dependent on self generated revenues either by market-set prices or donations and fund raising. The profile of the loans receivable at March 31, 2018 is as follows:

| ($ thousands) | Outstanding | Loan Valuation Allowance | 2018 | 2017 |
|---|---|---|---|---|
| Tier 1 | | | | |
| Municipalities | $ 3,704,559 | | | |
| City of Toronto (as guarantor) | 988,165 | | | |
| Universities | 126,704 | | | |
| Local service boards | 138 | | | |
| Social housing (with municipal guarantee) | 112,093 | | | |
| Affordable housing (with municipal guarantee) | 2,463 | | | |
| Community health & social service hubs (with municipal guarantee) | 3,306 | | | |
| Sports & Recreation (with municipal guarantee) | 18,063 | | | |
| | **4,955,491** | **(262)** | **4,955,229** | 4,706,788 |
| Tier 2 | | | | |
| Local distribution corporations | 190,869 | | | |
| Long term care | 136,681 | | | |
| Affordable housing (insured by CMHC)(1) | 128,957 | | | |
| Affordable housing (not insured by CMHC)(1) | 150,365 | | | |
| Social housing | 95,948 | | | |
| Aboriginal health access centres | 2,796 | | | |
| Community health & social service hubs | 19,810 | | | |
| | **725,426** | **(3,483)** | **721,943** | 721,769 |
| Tier 3 | | | | |
| Power generators | 110,139 | | | |
| District energy | 25,971 | | | |
| Municipal corporations (other) | 30,880 | | | |
| Beneficial entities (arts training, etc.) | 91,473 | | | |
| Sports and recreation | 12,395 | | | |
| | **270,858** | **(19,304)** | **251,554** | 269,568 |
| Deferred costs on concessionary loans | | | | |
| Deferred costs, beginning of year | (36,503) | | | |
| Amortization of concession costs | 5,913 | | | |
| Deferred costs, end of year | (30,590) | - | (30,590) | (36,503) |
| Loans receivable | **$ 5,921,185** | **$ (23,049)** | **$ 5,898,136** | $ 5,661,622 |

(1) CMHC is defined as Canada Mortgage and Housing Corporation

*Collateral – loans receivable*
Infrastructure Ontario lends on the strength of the applicants' ability to service loan payments over time. The Agency does not lend on a residual asset value basis and does not factor in possession or control of an asset in the evaluation of debt service coverage. It lends on the basis of a strong assurance of permanent sources of cash flow, namely the unique position of many borrowers to generate tax revenue or receive funding from the Province. Infrastructure Ontario mitigates its credit risk from the loan portfolio through various mitigation control provisions. The Agency has an intercept mechanism with the Province which allows for funds owing to certain borrowers (including municipalities) that receive funding from the Province, to be redirected to Infrastructure Ontario. Clients that do not receive provincial funding are required to provide adequate security such as: guarantees, first ranking mortgage/charge, general security agreement, assignment of rents and leases and assignment of accounts, agreements and collateral.

*Impairment – loans receivable*
The loan valuation allowance is established against the loan portfolio after management's review of existing economic, industry and portfolio conditions across the different loan segments. The general valuation allowance is underpinned by a model in which risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. A specific valuation allowance is also established in instances of known borrower credit deterioration on the expected non-recoverable portion of the loan receivable.

*Credit risk – cash, receivable and investments*
The maximum exposure to credit risk on the cash, restricted cash, receivables and investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2018 was:

| ($ thousands) | | 2018 | | Past Due >90 days |
|---|---|---|---|---|
| Cash | $ | **434,441** | $ | - |
| Restricted cash | | **136,894** | | - |
| Accounts receivable | | **45,319** | | 7,436 |
| Interest receivable | | **45,947** | | - |
| Investment income receivable | | **2,037** | | - |
| Projects receivable | | **33,099** | | - |
| Investments | | **177,505** | | - |
| | $ | **875,242** | $ | 7,436 |

**Market risk**
Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. This could occur on investments purchased as an economic hedge against borrowed funds that were surplus to immediate lending requirements. These investments were sold as required in order to fund loans. As a result of entering into back to back loan arrangements with the OFA, purchasing investments as an economic hedge is no longer needed. In addition, the entity only invests in bonds authorized under the approved policies and therefore are highly rated by recognized credit rating agencies and can be readily liquidated.

**Interest rate risk**
Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This could occur when the re-pricing of assets is not aligned with the re-pricing of liabilities. As a result of entering into back to back loan arrangements with the OFA, this re-pricing mismatch has been eliminated on all new loans after April 2015.

Management also controls interest rate risk through the use of interest rate swap derivatives as well as through the alignment of asset and liability risk structures and maturities.

*Sensitivity to variations in interest rates*
The sensitivity of a +/-1% change in the interest rate for the year ended March 31, 2018 would have a $4.1 million / ($4.8 million) impact on the surplus (deficit); a +/-1 basis point change in the interest rate as at March 31, 2018 would have a $0.7 million / ($0.7 million) impact on the accumulated re-measurement gains (losses).

**Liquidity risk**
Liquidity risk is the risk Infrastructure Ontario will not be able to meet its financial obligations as they come due. The senior debt is protected by the capital funding, funded by long-term subordinated loans provided by the Province and the OCWA. The capital funding is invested in long term liquid instruments that can be converted into cash in the event of any foreseeable liquidity crisis.

Infrastructure Ontario's borrowing by-laws are approved by the Board of Directors and the Minister of Infrastructure as well as the Minister of Finance. All borrowing is made with prudent consideration of interest rate and liquidity risks and complies with the asset-liability management policy. OFA coordinates and executes all borrowing activities. Infrastructure Ontario borrows directly from the Province for its long-term funding needs through the OFA.

The following illustrates the maturities of contracted obligations as at March 31, 2018:

| ($ thousands) | Within 1 Year | 1 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| Accounts payable | $ 2,149 | $ - | $ - | $ 2,149 |
| Accrued liabilities | 27,408 | - | - | 27,408 |
| Liabilities held in trust | 136,894 | - | - | 136,894 |
| Interest payable | 66,159 | - | - | 66,159 |
| Derivative liabilities | - | - | 13,628 | 13,628 |
| Debt and capital – principal and interest | 961,532 | 1,697,663 | 5,931,469 | 8,590,664 |
| Total financial liabilities | **$ 1,194,142** | **$ 1,697,663** | **$ 5,945,097** | **$ 8,836,902** |

## 16. CONTINGENCIES

The Agency is involved in various disputes and litigation. In the opinion of management, the resolution of disputes against the Agency, will not result in a material effect on the financial position of the Agency.

## 17. COMMITMENTS

Minimum base rent annual payments under operating leases for the Agency's office space for the next five years and thereafter are:

| ($ thousands) | Amount |
|---|---|
| Fiscal year | |
| 2018-2019 | $ 4,708 |
| 2019-2020 | 4,382 |
| 2020-2021 | 4,454 |
| 2021-2022 | 4,008 |
| 2022-2023 | 3,653 |
| Thereafter | 20,611 |
| | **$ 41,816** |

Infrastructure Ontario has $475.1 million of unadvanced loan commitments as at March 31, 2018.

## 18. FUNDS HELD IN TRUST

Infrastructure Ontario is required by the CMHC to collect property taxes and reserve funds as a condition of providing certain affordable housing loans. As part of the CMHC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. In addition, certain borrowers set up reserve funds in the trust account as a requirement of the loan agreement. As at March 31, 2018, the funds under administration were $121.9 million (2017 – $55.4 million).

Infrastructure Ontario maintains a project trust general ledger account to record funds received from various ministries and payable to project construction consortiums related to project substantial completion payments, interim payments, as well as payments received for variations, furniture, fixtures and equipment. Variations are changes to scope agreed to after the initial contract has been executed – also called contract change orders. All the above payments are paid directly by the sponsoring ministries, but flow through Infrastructure Ontario. As at March 31, 2018, Infrastructure Ontario held $15.0 million (2017 – $19.8 million) in its project trust general ledger account.

Infrastructure Ontario maintains several operating bank accounts and a short-term investment account which it holds in trust and administers on behalf of the Ministry. These accounts relate directly to the operations of the Ministry's general real estate portfolio, for which the Agency is the financial manager pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011. The funds held in trust for the Ministry as at March 31, 2018 were $408.8 million (2017 – $234.2 million), and are not recorded in these financial statements.

## 19. SEGMENTED INFORMATION

Infrastructure Ontario's reporting structure reflects how the business is managed. Infrastructure Ontario manages its operations to enable delivery and accountability on priorities such as those set by the Minister as well as corporate objectives determined by the Board. Infrastructure Ontario also assesses and anticipates future assignments and works to align its resources accordingly. As a result, Infrastructure Ontario is able to effectively allocate its resources and responsibilities by operating divisions in order to ensure efficiency and sustainability of operations over the period of the business plan. The table below is a summary of financial information by segment:

| ($ thousands) | For the year ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Major Projects | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 233,278 | $ - | $ 233,278 |
| Project delivery fees | 31,316 | - | - | 2,924 | 34,240 |
| Project transaction fees | 10,412 | 4,444 | - | 8,337 | 23,193 |
| Management fees | - | 55,928 | - | - | 55,928 |
| Recoverable advisory and other costs | 26,924 | - | - | - | 26,924 |
| Other income | - | 1,641 | 1,380 | - | 3,021 |
| | **68,652** | **62,013** | **234,658** | **11,261** | **376,584** |
| **Expenses** | | | | | |
| Salaries and benefits | 23,845 | 37,775 | 4,640 | 3,129 | 69,389 |
| General and administration | 6,554 | 8,356 | 1,846 | 553 | 17,309 |
| Interest expense | - | - | 210,278 | - | 210,278 |
| Project transaction costs | 9,772 | 4,444 | - | 8,337 | 22,553 |
| Recoverable advisory and other costs | 26,924 | - | - | - | 26,924 |
| Sub-contracting fees | - | 9,890 | - | - | 9,890 |
| Loan valuation allowance | - | - | 4,500 | - | 4,500 |
| | **67,095** | **60,465** | **221,264** | **12,019** | **360,843** |
| **Surplus/(deficit)** | **$ 1,557** | **$ 1,548** | **$ 13,394** | **$ (758)** | **$ 15,741** |

| ($ thousands) | For the year ended March 31, 2018 - Budget | | | | |
|---|---|---|---|---|---|
| | Major Projects | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 231,818 | $ - | $ 231,818 |
| Project delivery fees | 34,596 | - | - | 2,204 | 36,800 |
| Project transaction fees | 14,855 | - | - | - | 14,855 |
| Management fees | - | 56,232 | - | - | 56,232 |
| Recoverable advisory and other costs | - | - | - | - | - |
| Other income | - | 1,147 | 400 | - | 1,547 |
| | **49,451** | **57,379** | **232,218** | **2,204** | **341,252** |
| **Expenses** | | | | | |
| Salaries and benefits | 24,374 | 37,240 | 4,986 | 3,174 | 69,774 |
| General and administration | 9,387 | 9,263 | 2,432 | 698 | 21,780 |
| Interest expense | - | - | 209,795 | - | 209,795 |
| Project transaction costs | 14,855 | - | - | - | 14,855 |
| Recoverable advisory and other costs | - | - | - | - | - |
| Sub-contracting fees | - | 10,088 | - | - | 10,088 |
| Loan valuation allowance | - | - | 1,500 | - | 1,500 |
| | **48,616** | **56,591** | **218,713** | **3,872** | **327,792** |
| **Surplus/(deficit)** | **$ 835** | **$ 788** | **$ 13,505** | **$ (1,668)** | **$ 13,460** |

| ($ thousands) | For the year ended March 31, 2017 Major Projects | Real Estate | Lending | Commercial Projects | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 218,812 | $ - | $ 218,812 |
| Project delivery fees | 31,228 | - | - | 2,325 | 33,553 |
| Project transaction fees | 7,520 | 682 | - | 18,538 | 26,740 |
| Management fees | - | 54,633 | - | - | 54,633 |
| Recoverable advisory and other costs | 17,946 | - | - | - | 17,946 |
| Other income | - | 3,040 | 8,074 | - | 11,114 |
| | **56,694** | **58,355** | **226,886** | **20,863** | **362,798** |
| **Expenses** | | | | | |
| Salaries and benefits | 22,566 | 37,476 | 4,906 | 3,216 | 68,164 |
| General and administration | 7,984 | 8,201 | 2,495 | 706 | 19,386 |
| Interest expense | - | - | 196,769 | - | 196,769 |
| Project transaction costs | 7,888 | 682 | - | 18,628 | 27,198 |
| Recoverable advisory and other costs | 17,946 | - | - | - | 17,946 |
| Sub-contracting fees | - | 9,678 | - | - | 9,678 |
| Loan valuation allowance | - | - | 11,231 | - | 11,231 |
| | **56,384** | **56,037** | **215,401** | **22,550** | **350,372** |
| **Surplus/(deficit)** | **$ 310** | **$ 2,318** | **$ 11,485** | **$ (1,687)** | **$ 12,426** |

## 20. COMPARATIVE FIGURES

The comparative Statement of Financial Position has been reclassified to present restricted cash separately from cash and to separate debt and capital related to the loan program to conform with the financial statement presentation in the current year.

In addition, the comparative Statement of Cash Flows has been reclassified to include restricted cash in the operating activities.

## 21. ADJUSTMENT TO PRIOR PERIOD

Management determined that the derivative financial instruments should be presented on a net basis in the Statement of Financial Position in accordance with the provisions of the agreement with its counterparty. Previously, the derivative financial instruments were presented on a gross basis in the Statement of Financial Position. As a result, the prior year reported derivative assets of $283.3 million and liabilities of $371.0 million have been adjusted to present the net derivative liabilities of $87.7 million as at March 31, 2017.


## PURPOSE

WE MANAGE, FINANCE AND ENHANCE THE VALUE OF ONTARIO PUBLIC ASSETS

## WHAT WE DO

MAJOR PROJECTS
INFRASTRUCTURE LENDING
REAL ESTATE SERVICES
COMMERCIAL PROJECTS

Ontario
Infrastructure Ontario

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