# 2018-2019
# Annual Report

Ontario Infrastructure and Lands Corporation

Infrastructure Ontario

## OUR VISION

### PARTNERING TO MODERNIZE ONTARIO'S PUBLIC ASSETS

Infrastructure Ontario (IO) is an agency of the Government of Ontario that exists to support the modernization of Ontario's public assets through partnerships with the public and private sector.

IO is uniquely positioned within government as the commercial interface between public sector policy and private sector delivery and innovation. Our value to government is in our ability to provide a cross-functional team in the design, execution and management of programs, projects and transactions across a broad range of asset types. We have built a reputation of providing evidence-based commercial solutions, applying best practices in the execution of projects and transactions, and effectively managing our realty portfolio and loans program all in support of modernizing Ontario's public assets.

Our renewed vision, mission and values build on our historical mandate while also creating opportunity for IO to have a greater impact in support of government priorities.

Our brand and reputation is being recognized and leveraged across government to further expand our role in developing commercial solutions, executing transactions and managing assets across new asset classes and sectors (e.g. subways, transit oriented development and long-term care). Our skills and experience are being leveraged to optimize government real estate, centralize capital procurement services for our key partners and monetize our expertise, where appropriate, through fee for service advisory. We are well positioned to continue to support government in achieving its mandated commitments and priorities. IO exists to create value out of – or modernize – the public assets of the Province of Ontario. Everything we do is grounded in the idea that if we work with partners in both the public and private sectors, we can create value for taxpayers in ways others cannot. This is our vision and what keeps us excited about working at IO.

## OUR MISSION

- **Develop commercial solutions**
- **Execute transactions**
- **Manage assets**

We bring solutions to the table for government, identifying opportunities to work in partnership with the private sector. We are known for our execution. We bring a seamless "one-stop shop" perspective to turn government decisions into action through a range of contracting and commercial models. Our enterprise-wide view enables us to effectively manage assets and projects over their full life cycle.

## OUR VALUES

- **Attract and retain talented people**
- **Build great relationships**
- **Operate effectively**
- **Create a culture of innovation**

Our values are always consistent. We attract and retain talented people in an environment we are all proud of, building great relationships and being a great partner, operating conscientiously and effectively, and creating a real culture of innovation. This is the foundation for everything we do.

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# MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

Infrastructure Ontario (IO) is committed to creating and enhancing the value of public assets on behalf of the Government of Ontario by successfully delivering major social and civil infrastructure projects, real estate management and related services, infrastructure lending to municipalities and certain not-for-profit enterprises, and commercial strategy and advice. As such, I am pleased to present the annual report of IO for the 2018 - 19 fiscal year.

IO has demonstrated a track record of superior performance throughout its history in developing and managing strong partnerships, by and between the public and private sectors, to prudently and effectively modernize Ontario's public infrastructure and real estate assets.

Joining me as new directors this year are Patrick Sheils (Vice Chair), Lynn Kennedy, Annesley Wallace, David Shiner, Jeff Wesley, and Clark Savolaine, who together bring a broad range of professional expertise and experience to the Board. I wish to express my thanks and appreciation to the prior board members of IO for their hard work, and in particular to Linda Robinson, who skillfully led the Board for the past three years. IO has made significant progress building and strengthening relationships with the Ministry of Infrastructure and the many other ministries that use provincial infrastructure and real estate assets to deliver services to the citizens of Ontario. The Board is pleased to work with the Government as it releases its exciting and impactful long-term infrastructure plan. Across the many government portfolios including without limitation, Transportation and Health and Long-Term Care, the impact of IO and its government partners on the lives of the citizens of Ontario cannot be underestimated. I know that I, every Board member, and the entire IO team are driven by this.

For the third consecutive year, IO was selected as P3 America's Government Agency of the Year. In announcing the award, the judges commended IO for its performance as a strong and reliable partner in the delivery of infrastructure opportunities. Such recognition is due in large part to the commitment of our public and private sector partners and to the professionalism and dedication of the entire IO team. The Minister of Infrastructure has announced the government's intention to have IO offer its expertise from an advisory service perspective to other governments outside of Ontario.

Throughout our Province, IO will continue to create and enhance value by using its collective knowledge, skills, and experience to design, build, manage, finance, and where appropriate monetize, the Province's public assets on behalf of, and for the benefit of, all the citizens of Ontario.

**Christopher Voutsinas**
Chair, Board of Directors

# MESSAGE FROM THE PRESIDENT AND CEO

Over the years, Infrastructure Ontario has grown to expand its services to meet the provincial government's infrastructure needs. The trend certainly continued during the 2018 - 19 fiscal year.

As the demands of provincial infrastructure renewal have grown, the work of our agency has become increasingly complex. During the past year, we have worked diligently to further evolve our models and processes to keep in step with current realities. As part of this process, we implemented enhancements to our procurement processes that will promote enhanced private sector innovation and increased global competition on our large infrastructure projects.

During the course of the year, we also closely examined our organizational structure to ensure that it is well aligned to take on the large, integrated, technologically complex infrastructure projects ahead of us and we have the right expertise to deliver them. We are also partnering with agencies such as Metrolinx in a much more integrated fashion to draw upon the best of each organization. Everything we do is grounded in the idea that if we work with partners in both the public and private sectors, we can create value for taxpayers in ways that others cannot.

I am pleased to highlight some additional achievements during the past year.

**Executing transactions**
IO is known for its execution of projects using a wide range of contracting and commercial models. During the past year we continued to demonstrate reliable performance by bringing four major public-private partnership (P3) projects to substantial completion and an additional four projects to financial close. In fewer than 15 years, IO has brought to market over 120 such projects with an overall capital value totaling more than $54 billion. We have completed 66 of these projects across the Province with 95% delivered on budget and over two-thirds delivered within a month of their scheduled completion date or earlier.

**Managing assets**
We take an enterprise-wide view to effectively provide leadership on assets and programs over their full life cycle. We continued during the past year to modernize and enhance the provincial real estate portfolio while reducing the size of its holdings. Over $750 million was committed towards operation and maintenance of the portfolio and $400 million to capital repairs and leasehold improvements. Most significantly, the agency completed a large-scale real estate inventory for ministries and agencies that will enable government to pursue an enterprise-wide approach to strategic real estate decisions.

**Developing commercial solutions**
IO identifies opportunities to develop solutions for government through the creation of strategic partnerships with the private sector. We provided strategic advice to a range of ministries and government agencies through the year regarding how the private sector could help deliver public services more efficiently.

IO's loan program continued to provide affordable, long-term financing to public sector clients, helping them to renew their infrastructure and revitalize their communities. Last year, IO approved 69 new loans worth approximately $323 million, which brought the total value of loans approved since the program's establishment to over $10 billion.

In cooperation with its private sector partners, IO will continue to support the government's initiatives to modernize and maximize the value of public infrastructure and realty on behalf of all Ontarians. We are proud of the role our agency is playing in improving the economic and social prosperity of the Province, and will continue to focus on protecting the public interest and delivering value to taxpayers in all that we do.

**Ehren Cory**
President and Chief Executive Officer

# WHO WE ARE

Infrastructure Ontario (IO/Agency) is a Province of Ontario Crown Agency, and classified as a Board-Governed Agency. Its authority is provided by the *Ontario Infrastructure and Lands Corporation Act*, 2011 (OILC Act) and provides a wide range of services supporting the Government of Ontario's initiatives to modernize and maximize the value of public assets. IO upholds the government's commitment to renew public services and we do so in cooperation with the private sector.

## OUR PURPOSE

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

The legislative authority of IO, and the Agency's mandate, as defined in the OILC Act is:

- 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 advice and services, including project management, contract management and development, related to Government property to the Ministry of Government and Consumer Services (MGCS), or the Government when directed to do so in writing by the Minister;
- To provide financial management for Government property managed by MGCS 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.

# SOUND GOVERNANCE

## CORPORATE GOVERNANCE

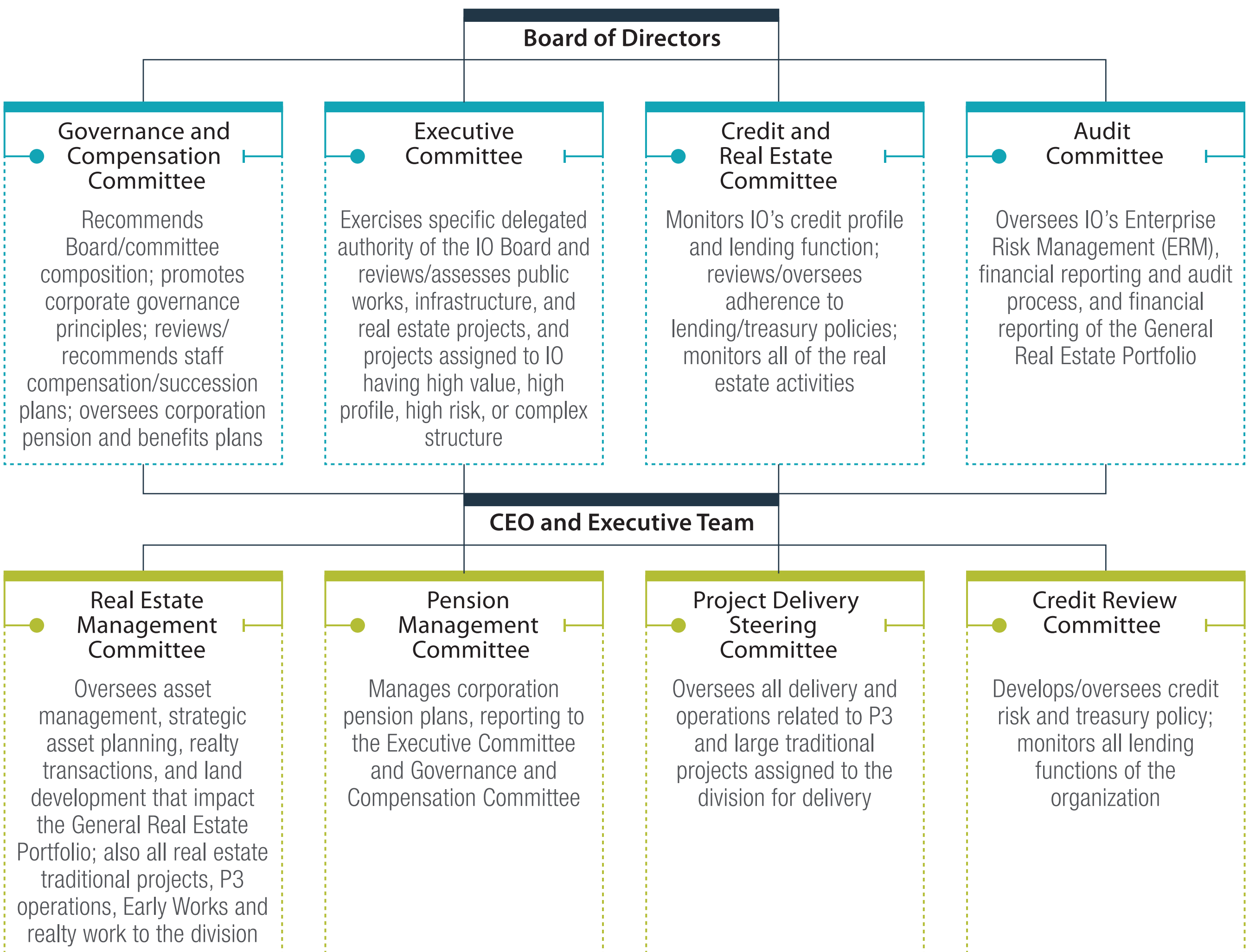
IO applies a high standard of corporate governance to ensure accountability and operational efficiency. IO is governed by a Board of Directors and Chief Executive Officer appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Infrastructure. The Agency is accountable to the Ontario Legislature through the Minister of Infrastructure and reports to the Minister through the Chair of the Board. A Memorandum of Understanding (MOU) between IO and the Minister clarifies and delineates IO's roles and responsibilities, as well as the accountability framework between the ministry and the Agency. The 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

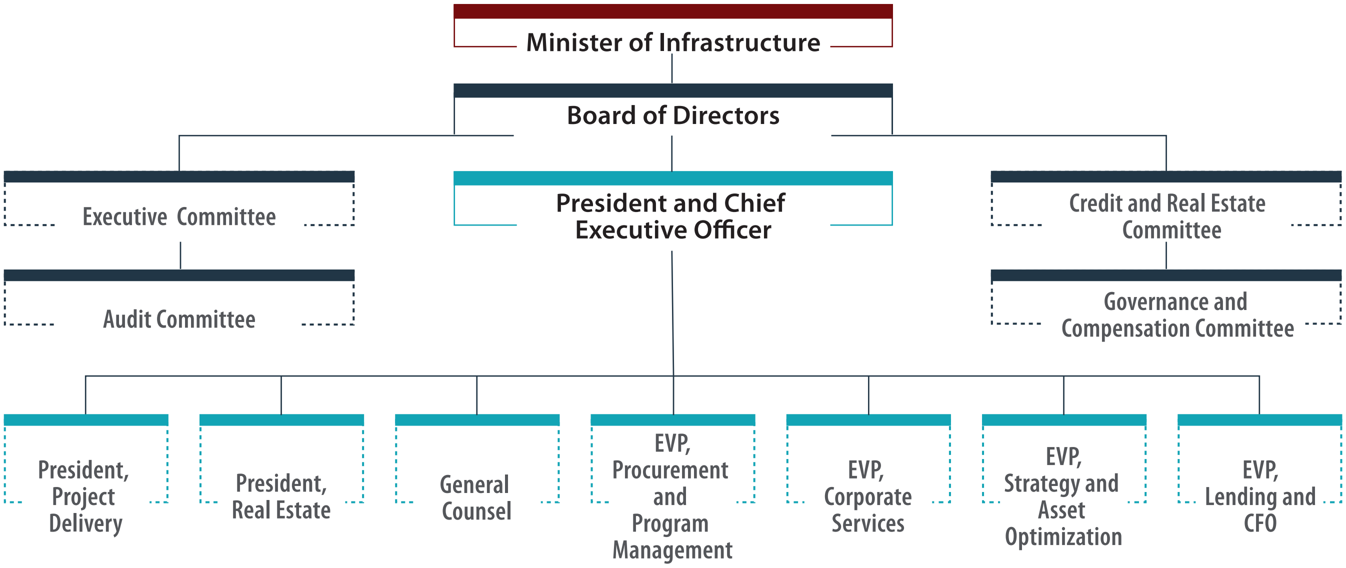
IO is mindful of its obligations to exercise due diligence, ensure accountability, provide transparency, and demonstrate results, so as to provide real value to the Province in its endeavours. Several oversight committees monitor financial and operational performance, risk management, and accountability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



## SOUND GOVERNANCE

Note that on March 28, 2019, the Executive Committee of the Board was dissolved and a new committee, the Infrastructure and Commercial Projects Committee (ICPC) was established. This committee oversees commercial and transaction advisory services and infrastructure projects or transactions valued at greater than $100 million, or high profile and high risk projects or transactions that arise in the normal course of operations.

## OUR CORPORATE STRUCTURE




## BOARD OF DIRECTORS

As of March 31, 2019, IO's Board of Directors consists of 13 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.

### Christopher Voutsinas, Chair

(Term: January 31, 2019 – January 31, 2022)

Christopher Voutsinas has over 25 years of investment management and private equity experience and has worked in major markets around the world. He has led professional teams based in North America, Europe, and Asia from offices in London, New York, and Toronto. Mr. Voutsinas is President, Capital Value & Income Corp, a proprietary co-investment and advisory firm that he founded in 2011.

### Patrick Sheils, Vice Chair

(Term: January 31, 2019 – January 31, 2022)

Patrick Sheils is the President and Chief Operating Officer at Laurentian Bank Securities. His extensive financial services career has spanned 30 years in Capital Markets, both in Montreal and Toronto. With a background in debt markets, foreign exchange, and derivatives, Mr. Sheils is the longest-standing member of the Investment Industry Association of Canada's Debt Markets Committee and was recently appointed to the Board of Waterfront Toronto.

### Deborah Barrett

(Term: December 20, 2016 – December 20, 2019)

Deborah 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 Chief Financial Officer of The Woodbridge Company Limited, a private investment company.

### Bruce Bodden

(Term: February 25, 2017 – 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 – 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.

## OUR CORPORATE STRUCTURE

**Gadi Mayman**

(Term: January 24, 2017 – 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.

**Lynn A. Kennedy**

(Term: January 31, 2019 – January 31, 2022)

Lynn A. Kennedy is a senior real estate executive who has been involved in all facets of real estate investment across major product types for a number of public companies and in the private sector. Ms. Kennedy has served as a Board member and Executive Committee member of Pensionfund Realty Limited, a private corporation, held by a number of pension plans. Ms. Kennedy also served on the Board of Build Toronto (now CreateTO), a corporation whose mandate is to maximize the value of underutilized real estate assets.

**Jane Pepino**

(Term: April 11, 2018 – April 11, 2021)

Jane Pepino is a senior partner of Aird & Berlis LLP and 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 honorary member of Lambda Alpha International, a global land economics society.

**David Shiner**

(Term: November 21, 2018 – November 21, 2021)

David Shiner has owned and managed private corporations and served as a Toronto City Councillor for 27 years. He served as chair of city committees responsible for planning and development, finance, public works, and government management, and as the Chair of Build Toronto and Vice Chair of CreateTO, the City of Toronto's real estate and development corporations. He has been appointed to numerous public and not-for-profit boards including Enwave District Energy, Toronto Hydro, Mount Sinai Hospital, Toronto International Film Festival, Toronto Transit Commission, Eva's shelters for homeless youth, and the Canadian Film Centre.

**Annesley Wallace**

(Term: December 5, 2018 – December 5, 2021)

Annesley Wallace is Senior Vice President, Pensions and Communications at OMERS, leading a team focused on delivering exceptional services to OMERS 500,000 pension plan members and managing 1,000 employer and stakeholder relationships across Ontario. In addition, Annesley is responsible for OMERS organization-wide communications strategy, issues management, and global brand strategy. Prior to assuming responsibility for Pensions and Communications, Annesley was a Managing Director at OMERS Infrastructure responsible for managing a portfolio of investments across energy, transportation, and social infrastructure sectors to deliver long-term value for the OMERS pension fund.

**Clark Savolaine**

(Term: March 28, 2019 – March 28, 2022)

Clark Savolaine is a senior member of KPMG LLP's Global Infrastructure Advisory practice where he specializes in strategic planning for large capital investments and transformational policy initiatives. Clark has 15 years' experience in fiscal, economic, and infrastructure policy development and regulatory affairs. He is currently a member of the Toronto Association for Business and Economics and the Toronto Region Board of Trade Infrastructure Committee.

**Jeff Wesley**

(Term: March 21, 2019 – March 21, 2022)

Jeff Wesley is a lawyer with the Anderson Law Group. Before joining the Anderson Law Group, Jeff worked at Union Gas for 34 years (he retired in 2018) where he developed and implemented the groundbreaking Indigenous Relations Program in 1999. In 2018, Jeff also retired following 24 years as an elected official, having served the community of Wallaceburg as Mayor and as a councillor in the amalgamated Municipality of Chatham-Kent.

During the 2018 - 19 fiscal year, the following members retired from the Board. IO thanks them for their dedication and service.

## OUR CORPORATE STRUCTURE

**Linda D. Robinson, Chair**
(Term: March 8, 2017 – January 17, 2019)

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.

**Colleen Campbell, Vice Chair**
(Term: October 23, 2016 – January 17, 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.

**Cecilia Williams**
(Term: April 11, 2018 – March 28, 2019)

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 (B.Comm.,1998) and was formerly Vice President and Controller of Dream Unlimited and Chief Financial Officer of Dream Alternative Trust.

**Christopher Escott**
(Term: November 29, 2017 – March 28, 2019)

Christopher Escott is a retired Senior Vice President of Delcan Corporation, an engineering and technology firm, which provides integrated systems and infrastructure solutions worldwide.

**Patrick J. Dillon**
(Term: November 15, 2017 – January 17, 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.

**Lawrence Kelly**
(Term: May 4, 2016 – May 3, 2018)

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.

Total remuneration paid to the Board from April 1, 2018, to March 31, 2019, was $96,500.

### 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 develop commercial solutions, execute transactions and manage assets in a continued effort to modernize Ontario's public 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 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.

Ehren is also a member of Infrastructure Ontario's Board of Directors.

### DESCRIPTION OF ACTIVITIES OVER THE YEAR

This year IO has been involved in many important priorities of the new government including: new Toronto subways; the move towards optimizing government's approach to real estate services; commercial projects mandates; the move towards optimizing and centralizing capital procurement; greater involvement in capital planning; and offering our expertise and best practices outside of the Province. We believe that the government's confidence in our work is the best attestation of IO's performance this year and reinforces our value in executing transactions, managing assets, and developing commercial solutions.

# OUR CORPORATE STRUCTURE

In June 2018, the government announced MGCS would have responsibility for government property. An Order-in-Council effected the transfer of this responsibility from MOI to MGCS, setting out the new duties, functions and responsibilities of each ministry.

## Year at a Glance

### PROJECT DELIVERY

As of March 31, 2019, there were 29 Public-Private Partnership (P3) projects in procurement, 32 projects in construction representing $18.9 billion in capital value and 29 projects in operations. As part of IO's commitment to transparency, IO retained a third party consultant, Hanscomb, through a competitive process who analyzed IO's project information and confirmed that since inception, 95% of projects were completed on-budget. This value reinforces a high standard of due diligence in estimating, project management and in applying appropriate levels of contingency and risk allocation minimizing unexpected costs during construction. Further, the consultant's analysis confirms that 69% of all projects have been completed before or within one month of the scheduled substantial completion dates established early on in the project life cycle. Hanscomb noted that both these results exceed generally accepted industry standards for capital projects.

### REAL ESTATE

Over the course of 2018 - 19, 49 properties were divested resulting in revenues of $116 million; portfolio reductions of 884,366 rentable square feet and annual liability reduction of $1.7 million.

IO manages the government real estate portfolio through an outsourced model. We engage a property management company, (currently CBRE), who are responsible for delivering approximately $500 million worth of related facility operations and maintenance on an annual basis. IO engages two industry leading Project Management Service Providers (PMSPs) Brookfield Global Integrated Solutions and Colliers Project Leaders, to deliver project management services for assignments valued between $100,000 and $10 million. The PMSPs oversee the delivery of approximately $300 million of construction, capital repairs, leasehold improvements and studies on an annual basis.

IO's Real Estate division continued efforts to modernize the government's real estate portfolio and reduce the size of its holdings. During the year, IO developed business cases to reduce the portfolio by 263,000 rentable square feet in various communities across the Province. Progress was made towards the Queen's Park Reconstruction initiative through the primary decant project. Over 3,000 employees were relocated to 315 Front Street, 438 University Avenue and 777 Bay Street. The reconstruction project includes the Macdonald Block Podium, Hearst, Hepburn, Mowat and Ferguson Towers in Toronto and will take approximately eight years to complete. At the end of the project, approximately 586,000 rentable square feet of third party leased space will be collapsed.

Many of IO's primary outsourcing contracts will be expiring in the next few years. This has provided IO with an opportunity to reexamine the most effective ways to deliver realty services to the Government of Ontario and the broader public sector. During 2018 - 19, IO embarked on a transformational outsourcing initiative to determine future outsourcing models.

### LENDING

At March 31, 2019, IO had advanced 160 loans over the year, representing $402.2 million. Since inception, the Loan Program has helped support more than $16 billion in local infrastructure investments across Ontario. It provides affordable, long-term financing to public sector clients, allowing them to modernize and renew their infrastructure. The program has helped hundreds of clients deliver thousands of community projects in all areas of the Province. The program has been used to revitalize roads and bridges, build new recreation centres and affordable housing units, and purchase equipment such as fire trucks and energy-efficient streetlights. IO currently administers a $6 billion loan portfolio, with municipalities, municipal corporations and housing providers making up almost 90% of the loan volume.

### COMMERCIAL PROJECTS

This group provides strategic advice for government's high priorities. One notable example includes the Ontario Place redevelopment where IO is looking to redevelop the site into a world-class destination through key partnerships. Another initiative involves the strategic collaborative relationship between Metrolinx and IO regarding new station development and potentially new Toronto Transit Commission (TTC) infrastructure. IO is looking to leverage existing surplus land across existing station network for mixed use development opportunities, supported with business cases and studies.

The following review of corporate performance aligns with the 2018 - 19 corporate objectives identified in IO's 2018 - 21 Business Plan.

## 2018 - 19 CORPORATE PERFORMANCE

IO's vision, mission, and values serve as a framework in establishing and monitoring our corporate objectives. Following is a summary of IO's corporate performance for each of seven major objectives associated with an aspect of what we do and how we do our work, outlining both signature achievements and missed opportunities.

IO's 2018 - 19 objectives are as follows:

### 1. EXECUTE TRANSACTIONS

Objective:
Implement modern project delivery in order to meet or exceed industry performance trends for budget, schedule, safety, and quality.

Despite a continuing trend towards projects being completed later than the scheduled substantial completion date coupled with greater than average volume of projects in transaction and construction, IO maintains an overall budget and schedule performance far above industry standards.

We also delivered on a large number of signature innovative improvements to the P3 model. In doing so, we have garnered the confidence of key clients, acted on many vendor and stakeholder concerns, and positioned ourselves for greater involvement in a larger number of capital project delivery projects in the future.

Key achievements include:

- 100% on-budget result for the four P3 projects that reached substantial completion in 2018 - 19.
- Implemented significant program improvements resulting from IO market sounding and addressed supplier concerns such as reviewing the key issues in P3 risk transfer, conducting better commercially confidential meetings, and less prescription in Project Specific Output Specifications for hospitals.
- Developed a new assessment tool for delivery model selection.
- Secured significant government mandates pertaining to capital delivery, with emphasis on Toronto subways and Ministry of Transportation (MTO) highways.

Missed Opportunities and Challenges:

- Only two of the four P3 projects that reached substantial completion in 2018 - 19 achieved completion within one month of scheduled substantial completion. The trend towards late projects requires ongoing strategies and mitigation despite strong contractual and model protections. Despite this, our performance on schedule remains well above industry standards for large, complex projects.

### 2. MANAGE ASSETS

Objective:
Effectively steward assets and programs through their life cycle in order to maximize benefits from investments.

This year was highlighted by continuing strong operational performance within the General Real Estate Portfolio (GREP). In the face of chronic underfunding, IO kept the operating costs for GREP-owned facilities within the target of 3% and an overall variance at 0.09% of the $216 million budget.

Key achievements include:

- Achieved a 3.29% vacancy rate across the office portfolio.
- GREP Facility Condition Index (FCI) is within an acceptable range at 24.7%.
- Generated $42.14 million in net sales and realized $417,000 in annual cost savings for the three-year sales plan. Under the new Accelerated Divestment Plan, a further $36.3 million net revenue was generated and an annual cost savings of $1.41 million was realized.
- P3 Asset Management service value is being recognized, securing a mandate to provide operations-period services for Phase 1 of the Highway 407 East Extension.
- All loans approved during the year were assessed as low risk.
- Four additional Letters of Direction and five new Request Letters received through the new Permissive Authority Letter of Direction.

Missed Opportunities and Challenges:

- Progress was slow in obtaining a formal mandate to provide operations-phase contract/asset management services for P3 hospital projects.

### 3. DEVELOP COMMERCIAL SOLUTIONS

**Objective:**
Leverage IO's commercial expertise to optimize and improve the value of government assets, projects, and programs.

IO successfully demonstrated its ability to work with government and central agencies to unlock asset value and deliver complex commercial transactions through strategic asset sales and reviews. IO is increasingly being asked to work with government partners to develop innovative solutions and generate new ideas to deliver on platform initiatives.

Key achievements include:

- Partnered with Metrolinx to lead a transit oriented development (TOD) program to maximize the development along existing and new transit investments.
- Closed affordable housing lands transaction in March 2019.
- Launched a global process to obtain development concepts and secure partners to redevelop Ontario Place.

Missed Opportunities and Challenges:

- IO's best advice is predicated on being involved in the early planning stages in the design of commercial solutions. We are actively working with our key partner ministries to align our competencies in support of their key priorities and ensure we are contributing early on and bringing comprehensive solutions to the table. Greater success will occur when we can establish a clear mandate and governance relationship involving IO in the planning stages with our stakeholders.

### 4. ATTRACT AND RETAIN TALENTED PEOPLE

**Objective:**
Create an inclusive and safe environment where people are focused on meaningful work, in order to continue to make IO a better place to work.

Progress has been made over the last year to improve the employee experience with changes to foundational programs, all building on the previously developed articulation of IO's employee value proposition. We expect changes made this year will begin to be reflected in lower turnover rates and continued employee engagement.

Key achievements include:

- Key measures of employee engagement include survey participation rate (84%), recommending IO as a place to work (80%), the ability for employees to make a change when they saw an opportunity for improvement (81%), and pride in working for IO (80%).
- Built awareness for all team members with respect to the prevention of sexual harassment through training sessions delivered to all employees. Launched a revised Health and Safety Program, including an e-learning module. Incorporated recommendations from a health and safety audit.

Missed Opportunities and Challenges:

- An employee working group has been created to explore barriers to an inclusive and diverse work environment. The delivery of an initial training session on inclusive leadership to the executive management team represented a first step towards decreasing unconscious bias and shifting a cultural paradigm across the organization.

### 5. CREATE A CULTURE OF INNOVATION

**Objective:**
Be a change agent in the public sector by encouraging idea generation and piloting and testing new ideas, in partnership with the private sector.

While many of the performance measures regarding this objective were met, IO faced an ongoing challenge in implementing a cultural change across the organization. Progress was made in improving physical collaboration space, breaking down organizational silos, and encouraging greater ownership of continuous improvement among staff.

Key achievements include:

- Completed Project Delivery office space co-location, launched enterprise change management, and deployed updated technology to increase collaboration within IO's offices.
- Implemented significant changes in evaluation methodology such as the point evaluation system for P3 projects, first employed on the Halton

Courthouse and GO Expansion OnCorridor RFPs in furtherance to conclusions conducted by the Minister's market sounding efforts as well as IO's own market soundings with major P3 participants.

### 6. BUILD GREAT RELATIONSHIPS

**Objective:**
Cultivate relationships, partnerships, and client service through a systematic approach towards government, industry, and community stakeholders.

IO undertook the development of a more deliberate and well-articulated partner and stakeholder strategy. The strategy employs an enterprise-wide approach to foster relationships with key partners and influencers. IO has significantly increased the efficiency and effectiveness of communications with client ministries, leading to an increase in mandates secured across the agency and clearer objectives for relationship development with key ministries and partners.

Key achievements include:

- Partnership plans in place for key clients, including regular reviews of key issues.
- Working more closely and productively with Metrolinx on the transit portfolio.

### 7. OPERATE EFFECTIVELY

**Objective:**
Maintain good governance and accountability with our Board and with our Minister, while efficiently delivering on our mandate within budget.

It is significant that IO was able to deliver on a growing number of mandates in Project Delivery, Real Estate, and Commercial Projects and all during a period of heightened reporting and compliance obligations without any material change in staffing. A lack of reliability in IO's systems and technology was identified as a major impediment to operational efficiency. This was offset by strong advancement in streamlining IO's interaction and communication with MOI and MGCS.

Key achievements include:

- Achieved a surplus budget with diligent reviews of the operating results and staffing at fiscal year-end. IO has four lines of business. A detailed description complete with financial performance is found in the Management's Discussion and Analysis section of this report.
- Governance of IO was streamlined through a single point of contact between the Program Management Office and MOI. This assisted, in part, IO's ability to be more effective as an Agency in responding to reporting requests from the Auditor General, Treasury Board Secretariat, and other functions within the government.

Missed Opportunities and Challenges:

- Establishment of signature data analytics products (for example, a cost estimation database for capital projects) has been slower than anticipated; owing in part to slow uptake in adopting a data-driven culture.

## 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.

In addition to the missed opportunities and challenges noted above, over the course of the year there were a few key risk events that materialized. These were regularly reported on and discussed with IO's Board and MOI.

On certain P3 projects, each with the same Contractor, significant delays exist as a result of defaults by the Contractor and Project Co under the Project Agreement. In accordance with the Project Agreements, the sureties who provided performance bonding were called on to bring the projects back on track. There continue to be ongoing delays to the projects as the mechanics of how lenders and sureties interact on P3 project defaults remain unresolved. Delayed projects have a reputational impact on IO and the P3 program. Schedule delays are reviewed regularly by senior management to determine how best to deliver projects as planned.

## OUR CORPORATE STRUCTURE

Another risk that materialized in 2018 - 19 involved the Eglinton LRT Claims Resolution and Acceleration Agreement. The Agreement reinforces the original Scheduled Substantial Completion date and settles all existing claims of delay and contamination as of the date of the Agreement. This significant claim resulted in negative media coverage for the project. Although this risk materialized, IO was prudent in managing this issue within the project's contingency allocation.

Underfunding of the capital repair program remains an ongoing risk. Although IO managed the portfolio with great care and diligence, the increasing number of buildings with a Facility Condition Index (FCI) higher than 20%, as well as the accelerated rise in deferred maintenance, poses a significant risk that may result in asset degradation, value deterioration, health and safety incidents, and mandated targets not being reached. Although IO does not own the assets in question or control their funding, there may be a reputational impact to IO. In 2017-18, the number of emergency projects totaled 25. This year, the number of emergency projects increased by 232% to 83. This is in part due to the rise in deferred maintenance.

## COMMUNITY INVOLVEMENT - IO GIVES BACK

IO and its employees care about the vitality of the communities in which they live and work. IO employees contribute to communities across the Province through volunteering, fundraising, and donating. In 2018 - 19, IO employees contributed to raising over $120,000 for the United Way through cash and payroll donations and a number of special events including employee appreciation chocolate-grams, a CN Tower stair climb, an OPS walk/run, a pumpkin carving contest, bake sales, and a golf tournament. IO employees also supported the community by participating in activities for Plan Canada, Salvation Army, World Wildlife Fund, Habitat for Humanity, and Santa Comes to Bay Street, collecting and donating cash and material items to benefit those in need.

## 2018 - 19 AWARDS

### INFRASTRUCTURE ONTARIO

Gold - Government Agency of the Year, P3 Awards 2018, P3 Bulletin

### 880 BAY STREET

Award of Merit - Project Management, Consulting Engineers of Ontario

### FINCH WEST LIGHT RAIL TRANSIT

Silver Award for Project Financing Category, Innovation and Excellence in Public-Private Partnerships, Canadian Council for Public-Private Partnerships

### HUMBER RIVER HOSPITAL

Excellence in Green Building - New Construction – Institutional Canada Green Building Council

### MILTON DISTRICT HOSPITAL

Silver Award for Infrastructure Category, Innovation and Excellence in Public-Private Partnerships, Canadian Council for Public-Private Partnerships

### ONTARIO PLACE – TRILLIUM PARK AND WILLIAM G. DAVIS TRAIL

Award of Excellence, Canadian Society of Landscape Architects

### PEEL MEMORIAL CENTRE FOR INTEGRATED HEALTH AND WELLNESS

Silver - Best Operational Project, P3 Awards 2018, P3 Bulletin

# Financial Report

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Ontario Infrastructure and Lands Corporation
(Infrastructure Ontario)

For the year ended March 31, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

Infrastructure Ontario (IO) is a Crown agency reporting to the Minister of Infrastructure (Minister) and is classified as a board-governed agency. 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.

Project Delivery manages large, complex public infrastructure projects primarily through the Public-Private Partnership (P3) 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 MGCS, 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 of Infrastructure.

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's Discussion and Analysis (MD&A) is intended to provide an overview of IO's financial activities for the year ended March 31, 2019, and should be read in conjunction with the financial statements for the year ended March 31, 2019 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.

## PROJECT DELIVERY

### YEAR-ENDED MARCH 31, 2019 VS. BUDGET

Project Delivery reported a surplus of $2.2 million for the year, a favourable variance of $0.4 million compared to the budget surplus of $1.8 million.

### REVENUES

Project Delivery provides professional services for P3 projects under either fixed price or cost recovery based contracts. For fixed price contracts before reaching financial close, revenues are recognized when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. After financial close, revenues are recognized using the percentage of completion method. Percentage of completion is calculated based on a ratio of costs incurred to total estimated costs. At final completion, any remaining margin on the fixed price contract is recognized. For cost recovery based contracts, revenue for project delivery and project transaction and recoverable costs is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured.

Revenues for the year, excluding project transaction and recoverable revenues, were $38.5 million, an unfavourable variance of $2.7 million compared to the budget of $41.2 million.

- The unfavourable variance was primarily due to lower project delivery fee revenue recognized on certain projects including Hamilton LRT and Ottawa Correctional Complex. The lower revenue is due to lower costs incurred during the year, which has an offsetting favourable variance.
- Project transaction and recoverable revenues were $36.5 million for the year. Project transaction costs include advisors that assist throughout the procurement process. The project transaction margin (project transaction revenues net of project transaction costs) was $0.2 million for the year, consistent with the budget of $0.2 million. This margin is due to certain social projects that reached final completion during the year, at which point any remaining margins were recognized into income. Recoverable costs are the ancillary costs on a project and vary depending on the nature and stage of the project. Due to the nature and variability on annual spend, IO does not budget for recoverable costs or revenues.

### EXPENSES

Refer to page 25 for a discussion of IO’s consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction and recoverable costs were $36.3 million for the year, with project transaction costs being $0.2 million less than revenues as explained above.

### YEAR-ENDED MARCH 31, 2019 VS. MARCH 31, 2018

Project Delivery reported a surplus of $2.2 million for the year, an increase of $0.6 million compared to the surplus of $1.6 million in the prior year.

### REVENUES

Revenues for the year, excluding project transaction and recoverable revenues, were $38.5 million, an increase of $7.2 million compared to $31.3 million in the prior year.

- The increase in revenue was primarily due to a larger number of projects in the current year. Additionally, the Seneca College project was approved for a fee increase during the year, resulting in a positive margin of $1.5 million.
- Project transaction and recoverable revenues were $36.5 million for the year, a decrease of $0.8 million compared to $37.3 million in the prior year. Project transaction and recoverable revenues are generally flow through third party advisor costs and vary depending on the nature of the project.

### EXPENSES

Refer to page 25 for a discussion of IO’s consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction and recoverable costs were $36.3 million for the year, a decrease of $0.4 million compared to $36.7 million in the prior year. Recoverable costs vary depending on the nature and stage of the project.

## REAL ESTATE

### YEAR-ENDED MARCH 31, 2019 VS. BUDGET

Real Estate reported a surplus/deficit of $nil for the year, an unfavourable variance of $0.1 million compared to the budget surplus of $0.1 million.

#### REVENUES

Revenues for the year, excluding project transaction and recoverable revenues, were $53.2 million, an unfavourable variance of $3.6 million compared to the budget of $56.8 million.

- Management fees include funding from GREP for asset management, facility management oversight and realty services in addition to revenues earned on Corporate Realty initiatives. Management fees were $51.8 million for the year, an unfavourable variance of $3.9 million compared to the budget of $55.7 million, primarily due to lower facility management fees for GREP. As overall costs were lower than budget during the year IO reduced the receivable from GREP to demonstrate cost recovery.
- Other income consists of lease commission rebates from CB Richard Ellis (CBRE). During the year $1.4 million in revenue was recognized, a favourable variance of $0.3 million compared to the budget of $1.1 million. As part of the outsourced CBRE contract, IO is entitled to 50% of the brokerage commission earned by CBRE after meeting all associated expenses.
- Project transaction and recoverable revenues were $5.2 million for the year. This revenue was a flow-through of project expenses, which includes third party advisor costs.

#### EXPENSES

Refer to page 25 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 $10.0 million, a favourable variance of $0.4 million compared to the budget of $10.4 million.
- Project transaction and recoverable costs were $5.2 million for the year and fully recoverable.

### YEAR-ENDED MARCH 31, 2019 VS. MARCH 31, 2018

Real Estate reported a surplus/deficit of $nil for the year, a decrease of $1.5 million compared to the surplus of $1.5 million in the prior year.

#### REVENUES

Revenues for the year, excluding project transaction and recoverable revenues, were $53.2 million, a decrease of $4.4 million compared to $57.6 million in the prior year.

- Management fees were $51.8 million for the year, a decrease of $4.1 million compared to $55.9 million in the prior year. This is primarily due to a reduction in management fees for GREP as explained above.
- Other income was $1.4 million for the year, a decrease of $0.3 million compared to $1.7 million in the prior year. Lease commission rebates vary depending on the volume and size of lease transactions.
- Project transaction and recoverable revenues were $5.2 million for the year, an increase of $0.8 million compared to $4.4 million in the prior year. Project transaction and recoverable revenues are flow-through of third party advisor costs and vary depending on the nature of the project.

#### EXPENSES

Refer to page 25 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 $10.0 million, a slight increase of $0.1 million compared to $9.9 million in the prior year.
- Project transaction and recoverable costs were $5.2 million for the year, an increase of $0.8 million compared to $4.4 million in the prior year. Project transaction and recoverable costs are consistent with revenues recognized.

## LENDING

### YEAR-ENDED MARCH 31, 2019 VS. BUDGET

Lending reported a surplus of $18.9 million for the year, a favourable variance of $2.9 million compared to the budget surplus of $16.0 million.

The net interest margin (NIM) for the year was $24.1 million, a favourable variance of $0.3 million compared to the budget of $23.8 million.

| ($ millions) | | Actual | Budget | Variance |
|---|---|---|---|---|
| Interest revenue | $ | **240.4** | 242.2 | (1.8) |
| Interest expense | | **(216.3)** | (218.4) | 2.1 |
| NIM | $ | **24.1** | 23.8 | 0.3 |

Net interest margin was $0.3 million favourable to budget primarily due to higher interest earned on bank accounts and lower interest paid on swaps, driven in large part from the progressive increases in the Bank of Canada rate.

Other income for the period was $1.6 million and consists of cost recoveries of $1.0 million primarily for the administration of the grant programs on behalf of MOI and $0.6 million of income for early loan repayments from Nipissing University, Midland Power Utility and Whitby Hydro Electric Corporation.

There was no additional loan valuation allowance in the year compared to the budget of $1.5 million.

### EXPENSES

Refer to page 25 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

### YEAR-ENDED MARCH 31, 2019 VS. MARCH 31, 2018

Lending reported a surplus of $18.9 million for the year, an increase of $5.5 million compared to the prior year surplus of $13.4 million.

NIM was $24.1 million, an increase of $1.1 million compared to the prior year of $23.0 million.

| ($ millions) | | March 31, 2019 | March 31, 2018 | Variance |
|---|---|---|---|---|
| Interest revenue | $ | **240.4** | 233.3 | 7.1 |
| Interest expense | | **(216.3)** | (210.3) | (6.0) |
| NIM | $ | **24.1** | 23.0 | 1.1 |

The increase in NIM by $1.1 million is primarily due to growth in the portfolio and higher interest rates.

Other income for the year was $1.6 million, an increase of $0.2 million compared to the prior year income of $1.4 million, primarily due to administration of the grant programs.

There was no additional loan valuation allowance in the year. In the prior year, IO had one specific loan provision of $4.5 million.

### EXPENSES

Refer to page 25 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

## COMMERCIAL PROJECTS

### YEAR-ENDED MARCH 31, 2019 VS. BUDGET

Commercial Projects reported a deficit of $1.2 million for the year, an unfavourable variance of $0.2 million compared to the budget deficit of $1.0 million.

### REVENUES

Revenues for Commercial Projects are generally recognized on a cost recovery basis determined and agreed to at the inception of each project. Revenues for the year, excluding project transaction and recoverable revenues, were $1.9 million, an unfavourable variance of $0.4 million compared to the budget of $2.3 million, attributable to the following:

- Lower revenues on the Affordable Housing Lands Program Wave 2 and Wave 3 projects as both were cancelled.
- Certain advisory services provided by Commercial Projects in the early stages of an engagement are considered business development in nature and are not fully recoverable.
- Project transaction and recoverable revenues were $2.3 million for the year. Generally project transaction and recoverable costs are a flow through of project expenses, which includes third party advisor costs on the following projects: Affordable Housing Lands Program Wave 1 and Ontario Place Celebration Common.

### EXPENSES

Refer to page 25 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction and recoverable costs were $2.3 million for the year, consistent with revenues recognized as explained above.

### YEAR-ENDED MARCH 31, 2019 VS. MARCH 31, 2018

Commercial Projects reported a deficit of $1.2 million for the year, a decrease of $0.4 million compared to the deficit of $0.8 million in the prior year.

### REVENUES

Revenues for the year, excluding project transaction and recoverable revenues, were $1.9 million, a decrease of $1.0 million compared to $2.9 million in the prior year.

- The lower revenues were primarily due to cancelled or delayed starts on projects due to the reprioritization of projects by the sponsoring ministries.
- Project transaction and recoverable revenues were $2.3 million for the year, a decrease of $6.0 million compared to $8.3 million in the prior year. Project transaction and recoverable revenues are generally flow through third party advisor costs and vary depending on the nature of the project.

### EXPENSES

Refer to page 25 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

- Project transaction and recoverable costs were $2.3 million for the year, a decrease of $6.0 million compared to $8.3 million in the prior year. Project transaction costs are consistent with revenues recognized as explained above.

## CORPORATE OPERATING EXPENSES

### YEAR-ENDED MARCH 31, 2019 VS. BUDGET

#### SALARIES AND BENEFITS

Salary and benefit expenses for the year were $70.3 million, a favourable variance of $3.4 million compared to the budget of $73.7 million. The average number of employees was 523 compared to the budget target of 542. 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 $19.3 million, a favourable variance of $3.3 million compared to the budget of $22.6 million. The favourable variance is primarily due to lower spending on professional and consulting services across all business lines.

### YEAR-ENDED MARCH 31, 2019 VS. MARCH 31, 2018

#### SALARIES AND BENEFITS

Salary and benefit expenses for the year were $70.3 million, an increase of $0.9 million compared to $69.4 million in the prior year. The average number of employees was 523 compared to the prior year of 516. The increase in the number of employees is to support project growth in Project Delivery.

#### GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the year were $19.2 million, an increase of $1.9 million compared to $17.3 million in the prior year. This is primarily due to higher expenses on information technology and professional and consulting services.

## STATEMENT OF FINANCIAL POSITION

#### CASH

At March 31, 2019, cash was $440.6 million, an increase of $6.2 million from a March 31, 2018 balance of $434.4 million. The increase is primarily due to operating and financing activities, offset by investing 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 $227.3 million in cash and $172.7 million in investments, providing credit protection to all lenders.

#### RESTRICTED CASH

At March 31, 2019, restricted cash was $147.2 million, an increase of $10.3 million from a March 31, 2018 balance of $136.9 million. The increase is primarily due to additional capital expenditures fund set aside for the Toronto Community Housing Corporation (TCHC) of $9.3 million.

#### ACCOUNTS RECEIVABLE

At March 31, 2019, accounts receivable were $38.8 million, a decrease of $6.5 million from $45.3 million at March 31, 2018. The decrease is primarily due to payments from the Ministry of Health and Metrolinx for a number of hospital projects and the GO Expansion bundle. Accounts receivable over 90 days old total $6.2 million, including

$3.6 million from Metrolinx and $1.4 million from the Ministry of Community Safety and Correctional Services. To date, $4.6 million of the $6.2 million has been collected.

### LOANS RECEIVABLE AND DEBT – LOAN PROGRAM

At March 31, 2019, loans receivable were $5,942.6 million, an increase of $44.5 million from $5,898.1 million at March 31, 2018. The increase in loans is due to $402.2 million of loans issued and the amortization of concessionary loans of $5.2 million, offset by $362.9 million of loan repayments.

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

- Net borrowed $45.0 million on the short-term revolving credit facility to the Province.
- Repaid $192.6 million on the Ontario Immigrant Investor Corporation loans as they came due.
- Repaid $400.0 million on the Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds to the Province using $340.0 million of the long-term non-revolving credit facility and $60.0 million of cash.
- Borrowed $571.4 million, net of repayments, on the long-term non-revolving credit facility to partly repay the OIPC/OILC bonds and fund long-term loans.

### 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, 2019, consistent with the balance as at March 31, 2018.

The specific valuation allowance is a provision of probable identifiable losses on existing loans. The total specific loan valuation allowance was $4.5 million as at March 31, 2019, consistent with the balance as at March 31, 2018.

### PROJECTS RECEIVABLE

At March 31, 2019, projects receivable were $30.3 million, a decrease of $2.8 million compared to $33.1 million at March 31, 2018. 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 Toronto Regional Courthouse and Cambridge Memorial Hospital.

### INVESTMENTS

At March 31, 2019, investments were $176.1 million, a decrease of $1.4 million from $177.5 million at March 31, 2018. The decrease is due to amortization of the investment bond premiums.

### 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.

Derivatives are recorded at fair value and presented on a net basis on the Statement of Financial Position resulting in net derivative liabilities of $32.9 million and the Statement of Re-Measurement Gains and Losses as an accumulated unrealized loss. The unrealized loss increased by $19.3 million from $13.6 million at March 31, 2018. This is primarily due to the decrease in interest rates of the Canadian yield curve. Since IO has a greater notional value of asset swaps compared to liability swaps, IO’s swaps are less favourable in a decreasing interest rate environment, resulting in the re-measurement loss during the year.

### ACCOUNTS PAYABLE

At March 31, 2019, accounts payable were $6.9 million, an increase of $4.8 million from $2.1 million at March 31, 2018. The current outstanding balance includes $5.0 million for HST payable to the Canada Revenue Agency and $1.9 million payable to third party vendors.

### ACCRUED LIABILITIES

At March 31, 2019, accrued liabilities were $25.6 million, a decrease of $1.8 million from the March 31, 2018 balance of $27.4 million. The current outstanding balance includes the following: $16.7 million for corporate accruals including salaries/benefits, vacation, and other operating expenses, and $8.9 million for project advisory costs accruals.

### LIABILITIES HELD IN TRUST

At March 31, 2019, liabilities held in trust were $147.2 million, an increase of $10.3 million from $136.9 million at March 31, 2018. The increase is primarily due to the additional TCHC reserve fund of $9.3 million.

### 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, 2019, deferred revenue was $51.8 million, an increase of $11.4 million from a March 31, 2018 balance of $40.4 million due to the timing of invoicing on certain projects relative to revenues incurred to date. The majority of deferred revenue are related to P3 projects.

# Financial Statements

Ontario Infrastructure and Lands Corporation
(Infrastructure Ontario)

For the year ended March 31, 2019

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# *Independent auditor's report*

To the Directors of Ontario Infrastructure and Lands Corporation

## *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation (the Organization) as at March 31, 2019 and the results of its operations, changes in its net debt, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**What we have audited**
The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of re-measurement gains and losses for the year then ended;
- the statement of changes in net financial assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

## *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as

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management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

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

## *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 21, 2019

# RESPONSIBILITY FOR FINANCIAL REPORTING

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

**George Skariah**
Chief Financial Officer (Acting)

## INFRASTRUCTURE ONTARIO – STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands of dollars)

| | March 31 2019 | March 31 2018 |
|---|---|---|
| **Financial assets** | | |
| Cash | $ 440,647 | $ 434,441 |
| Restricted cash (Note 2 & 18) | 147,248 | 136,894 |
| Accounts receivable (Note 3) | 38,796 | 45,319 |
| Interest receivable | 45,775 | 45,947 |
| Investment income receivable | 2,256 | 2,037 |
| Loans receivable (Note 4) | 5,942,655 | 5,898,136 |
| Projects receivable (Note 6) | 30,328 | 33,099 |
| Investments (Note 7) | 176,090 | 177,505 |
| | 6,823,795 | 6,773,378 |
| **Liabilities** | | |
| Accounts payable | 6,898 | 2,149 |
| Accrued liabilities | 25,650 | 27,408 |
| Liabilities held in trust (Note 2 & 18) | 147,248 | 136,894 |
| Interest payable | 49,774 | 66,159 |
| Derivatives (Note 5) | 32,915 | 13,628 |
| Deferred revenue | 51,768 | 40,421 |
| Debt - loan program (Note 9) | 5,924,581 | 5,900,028 |
| Capital - loan program (Note 9) | 399,681 | 399,681 |
| | 6,638,515 | 6,586,368 |
| **Net financial assets** | 185,280 | 187,010 |
| **Non-financial assets** | | |
| Tangible capital assets (Note 10) | 4,949 | 2,586 |
| | 190,229 | 189,596 |
| **Accumulated surplus** | 223,144 | 203,224 |
| **Accumulated re-measurement losses (Note 5)** | (32,915) | (13,628) |
| | $ 190,229 | $ 189,596 |

Contingencies (Note 16)

Commitments (Note 17)

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

Approved

Board Chair

Director, Chair Audit Committee

# INFRASTRUCTURE ONTARIO – STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

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

| | 2019 Budget | **2019** | 2018 |
|---|---|---|---|
| Revenues | | | |
| Interest revenue (Note 11) | $ 242,199 | **$ 240,450** | $ 233,278 |
| Project delivery fees (Note 13) | 43,452 | **40,421** | 34,240 |
| Management fees - GREP (Note 13) | 50,047 | **46,298** | 51,035 |
| Management fees - Corporate Realty (Note 13) | 5,662 | **5,513** | 4,893 |
| Project transaction and recoverable costs (Note 13) | 18,677 | **44,000** | 50,117 |
| Other income | 1,971 | **2,954** | 3,021 |
| | 362,008 | **379,636** | 376,584 |
| Expenses | | | |
| Salaries and benefits | 73,744 | **70,344** | 69,389 |
| General and administration (Note 12) | 22,618 | **19,306** | 17,309 |
| Interest expense (Note 11) | 218,428 | **216,327** | 210,278 |
| Project transaction and recoverable costs | 18,434 | **43,765** | 49,477 |
| Sub-contracting fees | 10,360 | **9,974** | 9,890 |
| Loan valuation allowance | 1,500 | **-** | 4,500 |
| | 345,084 | **359,716** | 360,843 |
| Surplus | 16,924 | **19,920** | 15,741 |
| Accumulated surplus, beginning of year | 203,224 | **203,224** | 187,483 |
| Accumulated surplus, end of year | $ 220,148 | **$ 223,144** | $ 203,224 |

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

# INFRASTRUCTURE ONTARIO – STATEMENT OF RE-MEASUREMENT GAINS AND LOSSES

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

| | 2019 | 2018 |
|---|---|---|
| Accumulated re-measurement losses, beginning of year | $ (13,628) | $ (87,748) |
| Realized losses – reclassified to the Statement of Operations | 18,844 | 30,681 |
| Re-measurement (losses)/gains | (38,131) | 43,439 |
| Net re-measurement (losses)/gains in the year | (19,287) | 74,120 |
| Accumulated re-measurement losses, end of year | $ (32,915) | $ (13,628) |

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

# INFRASTRUCTURE ONTARIO – STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

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

| | 2019 | 2018 |
|---|---|---|
| Surplus | $ 19,920 | $ 15,741 |
| Acquisition of tangible capital assets | (3,592) | (2,192) |
| Amortization of tangible capital assets | 1,229 | 1,540 |
| Net re-measurement (losses)/gains in the year | (19,287) | 74,120 |
| Net change in net financial assets | (1,730) | 89,209 |
| Net financial assets at beginning of year | 187,010 | 97,801 |
| Net financial assets at end of year | $ 185,280 | $ 187,010 |

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

## INFRASTRUCTURE ONTARIO – STATEMENT OF CASH FLOWS

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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Surplus | $ | 19,920 | $ | 15,741 |
| Items not requiring a current cash outlay: | | | | |
| Loan valuation allowance | | - | | 4,500 |
| Amortization of loan concession costs | | (5,236) | | (5,913) |
| Amortization of tangible capital assets | | 1,229 | | 1,540 |
| Amortization of debt issue cost | | 783 | | 975 |
| Amortization of investment bond premium | | 1,415 | | - |
| | | 18,111 | | 16,843 |
| Changes in working capital items: | | | | |
| Increase in restricted cash | | (10,354) | | (61,650) |
| Decrease/(increase) in accounts receivable | | 6,523 | | (9,699) |
| Decrease/(increase) in interest receivable | | 172 | | (41) |
| Increase in investment income receivable | | (219) | | (258) |
| Decrease in projects receivable | | 2,771 | | 11,987 |
| Increase/(decrease) in accounts payable | | 4,749 | | (1,742) |
| (Decrease)/increase in accrued liabilities | | (1,758) | | 384 |
| Increase in liabilities held in trust | | 10,354 | | 61,650 |
| Decrease in interest payable | | (16,385) | | (1,143) |
| Increase in deferred revenue | | 11,347 | | 14,725 |
| Cash provided by operating activities | | 25,311 | | 31,056 |
| **Capital activities** | | | | |
| Acquisition of tangible capital assets | | (3,592) | | (2,192) |
| Cash used in capital activities | | (3,592) | | (2,192) |
| **Investing activities** | | | | |
| Issuance of loans receivable | | (402,237) | | (674,160) |
| Loan repayments | | 362,954 | | 439,059 |
| Purchase of investments | | (62,300) | | - |
| Proceeds from maturity of investments | | 62,300 | | - |
| Cash used in investing activities | | (39,283) | | (235,101) |
| **Financing activities** | | | | |
| Issuance/(repayment) of short-term revolving credit facility | | 45,000 | | (200,000) |
| Debt issuances | | 672,387 | | 924,321 |
| Debt repayments | | (693,617) | | (494,427) |
| Cash provided by financing activities | | 23,770 | | 229,894 |
| **Net increase in cash** | | 6,206 | | 23,657 |
| **Cash, beginning of year** | | 434,441 | | 410,784 |
| **Cash, end of year** | $ | 440,647 | $ | 434,441 |

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 agency reporting to the Minister of Infrastructure (Minister) and is classified by the Government of the Province of Ontario (Province, Government) as a board-governed agency.

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 advice and services, including project management, contract management and development, related to Government property to MGCS or the Government when directed to do so in writing by the Minister;
- To provide financial management for Government property managed by MGCS 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 agency, 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*

Financial instruments are classified at initial recognition as either (i) cost or amortized cost or (ii) fair value. In these financial statements, all financial instruments other than derivatives are classified at cost or amortized cost. Derivatives are presented on a net basis on the Statement of Financial Position as either financial assets or liabilities depending if the net balance is either in a receivable or liability position. 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.

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:

*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.

*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*

*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.

*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 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, management fees, and project transaction and recoverable costs*

Project delivery fees and management fees represent the recovery of IO's staff salaries and benefits, general and administration costs, and sub-contracting fees in delivering services. Project transaction and recoverable costs include the recovery of external advisor costs and project cost contingencies.

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. For fixed price contracts before financial close, revenue is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. After financial close, revenue is recorded using the percentage of completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs. At final completion, any remaining margin on the fixed price contract is recognized. 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.

## 2. RESTRICTED CASH

Restricted cash includes funds held in trust for Infrastructure Ontario's lending clients of $136.8 million (2018 - $121.9 million) and project construction consortiums of $10.4 million (2018 - $15.0 million) detailed further in Note 18.

## 3. ACCOUNTS RECEIVABLE

| ($ thousands) | | 2019 | | 2018 |
|---|---|---|---|---|
| Net trade accounts receivable | $ | **37,394** | $ | 44,077 |
| HST receivable | | **1,402** | | 1,242 |
| | $ | **38,796** | $ | 45,319 |

## 4. LOANS RECEIVABLE

| ($ thousands) | | 2019 | | | 2018 | |
|---|---|---|---|---|---|---|
| **Construction advances** | | | Interest % | | | Interest % |
| Infrastructure renewal loan program | $ | 209,127 | 2.22-3.20 | $ | 157,081 | 1.43-2.64 |
| **Debentures receivable** | | | | | | |
| Concessionary loan program | | | | | | |
| Maturity terms: | | | | | | |
| 6 to 10 years | | 527 | 2.08-2.14 | | 5,835 | 2.08-2.51 |
| 11 to 15 years | | 14,668 | 2.28-2.67 | | 20,046 | 2.28-2.67 |
| 16 to 20 years | | 187,675 | 2.36-2.95 | | 211,009 | 2.36-2.95 |
| Greater than 20 years | | 52,870 | 2.52-3.05 | | 55,713 | 2.52-3.05 |
| | | 255,740 | | | 292,603 | |
| Infrastructure renewal loan program | | | | | | |
| Maturity terms: | | | | | | |
| 1 to 5 years | | 50,999 | 1.18-3.56 | | 37,626 | 1.18-3.56 |
| 6 to 10 years | | 573,411 | 1.52-5.73 | | 638,127 | 1.52-5.73 |
| 11 to 15 years | | 604,694 | 2.24-5.26 | | 636,208 | 2.24-5.26 |
| 16 to 20 years | | 1,433,848 | 2.71-5.89 | | 1,441,526 | 2.71-5.89 |
| Greater than 20 years | | 2,863,239 | 2.77-5.91 | | 2,748,604 | 2.77-5.91 |
| | | 5,526,191 | | | 5,502,091 | |
| **Total** | | 5,991,058 | | | 5,951,775 | |
| **Deferred costs on concessionary loans** | | | | | | |
| Deferred costs, beginning of year | | (30,590) | | | (36,503) | |
| Amortization of concession costs | | 5,236 | | | 5,913 | |
| Deferred costs, end of year | | (25,354) | | | (30,590) | |
| Loan valuation allowance | | (23,049) | | | (23,049) | |
| **Loans receivable** | $ | 5,942,655 | | $ | 5,898,136 | |

Construction advances are loans due from municipalities, other public sector bodies and not-for-profit entities. The interest rate on these construction loans is based on the Ontario three-month treasury bill 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, 2019, Infrastructure Ontario has a loan valuation allowance of $23.0 million (2018 - $23.0 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 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, 2019, 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 | $ 256,000 | 924,982 | 41,500 | - | 852,857 | $ 2,075,339 |
| Asset swap | $ 261,768 | 1,054,409 | 891,529 | 520,724 | 629,848 | $ 3,358,278 |

Derivatives are recorded at fair value as at March 31, 2019 resulting in net derivative liabilities of $32.9 million and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $32.9 million (2018 – net derivative liabilities of $13.6 million on the Statement of Financial Position and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $13.6 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, 2019, 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, 2019, the interest rates on these investments ranged from 2.10% to 4.40% (2018 – 2.10% to 4.40%) with maturities from June 2019 to June 2024.

## 8. OFA CREDIT FACILITY

Infrastructure Ontario has a five 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 Public-Private Partnership (P3) program. Advances are to be repaid on completion of projects. As at March 31, 2019, the full balance of the facility remains undrawn.

## 9. DEBT AND CAPITAL – LOAN PROGRAM

All facilities are available exclusively for the loan program.

| ($ thousands) | | 2019 | | | 2018 | |
|---|---|---|---|---|---|---|
| a) Debt - loan program | | | Interest % | | | Interest % |
| **Senior debt** | | | | | | |
| Infrastructure Renewal Bonds | $ | 300,000 | 4.70 | $ | 300,000 | 4.70 |
| **Subordinate debt** | | | | | | |
| Short-term revolving credit facility | | 215,000 | 1.83-1.97 | | 170,000 | 1.22-1.44 |
| Ontario Immigrant Investor Corporation loans | | | | | | |
| Fixed | | 42,000 | 2.12-2.28 | | 187,898 | 1.86-2.64 |
| Floating | | - | - | | 46,718 | 1.55 |
| OIPC/OILC bonds | | | | | | |
| Fixed | | 1,915,000 | 2.92-4.96 | | 2,015,000 | 2.20-4.96 |
| Floating Rate Notes | | - | - | | 300,000 | 1.89-1.95 |
| Long-term non-revolving credit facility | | | | | | |
| Fixed | | 2,497,491 | 1.21-3.58 | | 2,266,105 | 1.21-3.58 |
| Floating Rate Notes | | 960,000 | 2.19-2.47 | | 620,000 | 2.00-2.18 |
| | | 5,929,491 | | | 5,905,721 | |
| Debt issue costs | | (4,910) | | | (5,693) | |
| | $ | 5,924,581 | | $ | 5,900,028 | |
| b) Capital - loan program | | | | | | |
| Province of Ontario loan | $ | 279,681 | 1.90 | $ | 279,681 | 1.35 |
| Ontario Clean Water Agency loan | | 120,000 | 2.00 | | 120,000 | 1.54 |
| | $ | 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)

| Fiscal year | | Amount |
|---|---|---|
| 2019-2020 | $ | 667,504 |
| 2020-2021 | | 666,715 |
| 2021-2022 | | 368,671 |
| 2022-2023 | | 848,186 |
| 2023-2024 | | 833,749 |
| Thereafter | | 5,838,390 |
| | **$** | **9,223,215** |

### 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, 2019, maturities ranged from April 2019 to June 2019, while interest on the notes ranged from 1.83% to 1.97% (2018 – 1.22% to 1.44%).

### 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, 2019, interest on fixed rate bonds ranged between 2.12% and 2.28% (2018 – 1.86% to 2.64%) compounded semi-annually and paid on maturity. Maturities ranged from April 2019 to July 2019. The floating rate bonds matured on January 25, 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, 2019, interest on fixed rate bonds ranged from 2.92% to 4.96% (2018 – 2.20% to 4.96%) per annum and maturities ranged from June 2019 to June 2045. Interest is paid semi-annually on these bonds until maturity. The Floating Rate Notes (FRN) matured on June 30, 2018.

### 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 2018, Infrastructure Ontario was approved to borrow an additional $4.0 billion from the Province for the purposes of funding the loan program from November 2018 to May 2022. As at March 31, 2019, $3.8 billion of the facility is available and undrawn.

As at March 31, 2019, interest with fixed rates on the back-to-back loans ranged from 1.21% to 3.58% (2018 – 1.21% to 3.58%) and maturities ranged from May 2019 to March 2049. The FRNs bear interest from three month CDOR plus 17 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 FRNs.

### 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, 2019, interest on the note was reset at 1.90% (2018 – 1.35%).

### 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, 2019, interest on the note was reset at 2.00% (2018 – 1.54%).

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, 2019 | | | | |
|---|---|---|---|---|---|
| ($ thousands) | Computer Equipment | Software | Furniture, Fixtures and Office Equipment | Leasehold Improvements | Total |
| **Cost** | | | | | |
| Balance, April 1, 2018 | $ 18,956 | $ 4,413 | $ 2,256 | $ 10,332 | $ 35,957 |
| Additions | 605 | 287 | 374 | 2,326 | 3,592 |
| Balance, March 31, 2019 | 19,561 | 4,700 | 2,630 | 12,658 | 39,549 |
| **Accumulated amortization** | | | | | |
| Balance, April 1, 2018 | 17,531 | 4,179 | 2,011 | 9,650 | 33,371 |
| Additions | 817 | 81 | 46 | 285 | 1,229 |
| Balance, March 31, 2019 | 18,348 | 4,260 | 2,057 | 9,935 | 34,600 |
| **Net book value - March 31, 2019** | $ 1,213 | $ 440 | $ 573 | $ 2,723 | $ 4,949 |

| | 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 |

## 11. INTEREST INCOME (EXPENSE)

| ($ thousands) | | 2019 | | 2018 |
|---|---|---|---|---|
| Interest revenue | $ | **240,450** | $ | 233,278 |
| Interest expense | | **(216,327)** | | (210,278) |
| **Net interest margin** | $ | **24,123** | $ | 23,000 |

The breakdown of interest expense on debt is as follows:

| | | | | |
|---|---|---|---|---|
| Program funding | | | | |
| Infrastructure Renewal Bonds | $ | **(14,023)** | $ | (14,100) |
| Short-term revolving credit facility | | **(3,904)** | | (2,273) |
| Ontario Immigrant Investor Corporation Loans | | **(2,988)** | | (6,330) |
| OIPC/OILC Bonds | | **(76,728)** | | (83,587) |
| Long-term non-revolving credit facility | | **(90,915)** | | (68,358) |
| | | **(188,558)** | | (174,648) |
| Interest rate swap net payment | | **(18,844)** | | (30,681) |
| Debt issue cost amortization | | **(783)** | | (975) |
| Investment bond premium amortization | | **(1,415)** | | - |
| | | **(209,600)** | | (206,304) |
| Capital funding | | | | |
| Province of Ontario loan | | **(4,491)** | | (2,549) |
| Ontario Clean Water Agency loan | | **(2,236)** | | (1,425) |
| | | **(6,727)** | | (3,974) |
| **Total interest expense** | $ | **(216,327)** | $ | (210,278) |

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

| | | | | |
|---|---|---|---|---|
| Cash interest received | $ | **235,204** | $ | 226,530 |
| Cash interest paid | | **(230,515)** | | (209,852) |
| | | **4,689** | | 16,678 |
| Non-cash interest | | | | |
| Amortization of loan concession costs (Note 4) | | **5,236** | | 5,913 |
| Other non-cash interest | | **14,198** | | 409 |
| Net interest margin | $ | **24,123** | $ | 23,000 |

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

## 12. GENERAL AND ADMINISTRATION EXPENSES

| ($ thousands) | 2019 Budget | 2019 | 2018 |
|---|---|---|---|
| Information technology | $ 7,727 | $ **7,610** | $ 6,234 |
| Premises | 5,954 | **5,806** | 5,536 |
| Professional and consulting | 5,043 | **3,224** | 2,547 |
| Office and administration | 2,007 | **1,327** | 1,262 |
| Communications | 380 | **110** | 190 |
| Amortization | 1,507 | **1,229** | 1,540 |
| | $ 22,618 | $ **19,306** | $ 17,309 |

## 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 and Consumer 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:

### Project delivery fees and project transaction and recoverable costs

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. Project transaction and recoverable costs include external advisor services and project cost contingencies.

### Management fees

Fees charged for services, including property and project management, provided to the Ministry's General Real Estate Portfolio (GREP) and the corporate realty portfolio.

Infrastructure Ontario has interest bearing loans from the Province, OCWA, OIIC and the OFA (Notes 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, 2019 was $3.6 million (2018 – $3.2 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, 2019 (2018 – $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 and Consumer 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, 2019 was $5,942.7 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, 2019 is as follows:

| ($ thousands) | Outstanding | Loan Valuation Allowance | 2019 | 2018 |
|---|---|---|---|---|
| **Tier 1** | | | | |
| Municipalities | $ 3,702,721 | | | |
| City of Toronto (as guarantor) | 1,039,683 | | | |
| Universities | 125,000 | | | |
| Local service boards | 213 | | | |
| Social housing (with municipal guarantee) | 120,332 | | | |
| Affordable housing (with municipal guarantee) | 720 | | | |
| Community health & social service hubs (with municipal guarantee) | 3,209 | | | |
| Sports & Recreation (with municipal guarantee) | 36,416 | | | |
| | **5,028,294** | **(262)** | **5,028,032** | 4,955,229 |
| **Tier 2** | | | | |
| Local distribution corporations | 180,654 | | | |
| Long-term care | 141,744 | | | |
| Affordable housing (insured by CMHC)[1] | 130,512 | | | |
| Affordable housing (not insured by CMHC)[1] | 137,290 | | | |
| Social housing | 94,547 | | | |
| Aboriginal health access centres | 2,407 | | | |
| Community health & social service hubs | 19,229 | | | |
| | **706,383** | **(3,483)** | **702,900** | 721,943 |
| **Tier 3** | | | | |
| Power generators | 102,680 | | | |
| District energy | 24,865 | | | |
| Municipal corporations (other) | 30,025 | | | |
| Beneficial entities (arts training, etc.) | 86,836 | | | |
| Sports and recreation | 11,975 | | | |
| | **256,381** | **(19,304)** | **237,077** | 251,554 |
| **Deferred costs on concessionary loans** | | | | |
| Deferred costs, beginning of year | (30,590) | | | |
| Amortization of concession costs | 5,236 | | | |
| Deferred costs, end of year | **(25,354)** | - | **(25,354)** | (30,590) |
| **Loans receivable** | **$ 5,965,704** | **$ (23,049)** | **$ 5,942,655** | $ 5,898,136 |

[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, 2019 was:

| ($ thousands) | 2019 | Past Due >90 days |
|---|---|---|
| Cash | $ 440,647 | $ - |
| Restricted cash | 147,248 | - |
| Accounts receivable | 38,796 | 6,198 |
| Interest receivable | 45,775 | - |
| Investment income receivable | 2,256 | - |
| Projects receivable | 30,328 | - |
| Investments | 176,090 | - |
| | $ 881,140 | $ 6,198 |

## 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 +/- 100 basis point change in the interest rate for the period ended March 31, 2019 would have a $3.8 million / ($4.1 million) impact on the surplus (deficit); and a $61.5 million / ($62.1 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 treasury 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, 2019:

| ($ thousands) | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Accounts payable | $ 6,898 | $ - | $ - | $ 6,898 |
| Accrued liabilities | 25,650 | - | - | 25,650 |
| Liabilities held in trust | 147,248 | - | - | 147,248 |
| Interest payable | 49,774 | - | - | 49,774 |
| Derivative liabilities | (750) | (17,288) | 50,953 | 32,915 |
| Debt and capital – principal and interest | 667,504 | 2,717,321 | 5,838,390 | 9,223,215 |
| **Total financial liabilities** | **$ 896,324** | **$ 2,700,033** | **$ 5,889,343** | **$ 9,485,700** |

## 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)

| Fiscal year | Amount |
|---|---|
| 2019-2020 | $ 5,280 |
| 2020-2021 | 4,750 |
| 2021-2022 | 4,323 |
| 2022-2023 | 4,000 |
| 2023-2024 | 4,074 |
| Thereafter | 18,877 |
| | **$ 41,304** |

Infrastructure Ontario has $383.8 million of unadvanced loan commitments as at March 31, 2019.

## 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, 2019, the funds under administration were $136.8 million (2018 – $121.9 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, 2019, Infrastructure Ontario held $10.4 million (2018 – $15.0 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, 2019 were $197.7 million (2018 – $408.8 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:

| | For the year ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| ($ thousands) | Project Delivery | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 240,450 | $ - | $ 240,450 |
| Project delivery fees | 38,524 | - | - | 1,897 | 40,421 |
| Management fees - GREP | - | 46,298 | - | - | 46,298 |
| Management fees - Corporate Realty | - | 5,513 | - | - | 5,513 |
| Project transaction and recoverable costs | 36,500 | 5,187 | - | 2,313 | 44,000 |
| Other income | - | 1,378 | 1,576 | - | 2,954 |
| | 75,024 | 58,376 | 242,026 | 4,210 | 379,636 |
| **Expenses** | | | | | |
| Salaries and benefits | 28,270 | 35,069 | 4,470 | 2,535 | 70,344 |
| General and administration | 8,334 | 8,146 | 2,298 | 528 | 19,306 |
| Interest expense | - | - | 216,327 | - | 216,327 |
| Project transaction and recoverable costs | 36,265 | 5,187 | - | 2,313 | 43,765 |
| Sub-contracting fees | - | 9,974 | - | - | 9,974 |
| | 72,869 | 58,376 | 223,095 | 5,376 | 359,716 |
| **Surplus/(deficit)** | $ 2,155 | $ - | $ 18,931 | $ (1,166) | $ 19,920 |

| | For the year ended March 31, 2019 - Budget | | | | |
|---|---|---|---|---|---|
| ($ thousands) | Project Delivery | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 242,199 | $ - | $ 242,199 |
| Project delivery fees | 41,170 | - | - | 2,282 | 43,452 |
| Management fees - GREP | - | 50,047 | - | - | 50,047 |
| Management fees - Corporate Realty | - | 5,662 | - | - | 5,662 |
| Project transaction and recoverable costs | 18,677 | - | - | - | 18,677 |
| Other income | - | 1,099 | 872 | - | 1,971 |
| | 59,847 | 56,808 | 243,071 | 2,282 | 362,008 |
| **Expenses** | | | | | |
| Salaries and benefits | 29,840 | 36,446 | 4,819 | 2,639 | 73,744 |
| General and administration | 9,828 | 9,899 | 2,277 | 614 | 22,618 |
| Interest expense | - | - | 218,428 | - | 218,428 |
| Project transaction and recoverable costs | 18,434 | - | - | - | 18,434 |
| Sub-contracting fees | - | 10,360 | - | - | 10,360 |
| Loan valuation allowance | - | - | 1,500 | - | 1,500 |
| | 58,102 | 56,705 | 227,024 | 3,253 | 345,084 |
| **Surplus/(deficit)** | $ 1,745 | $ 103 | $ 16,047 | $ (971) | $ 16,924 |

| | For the year ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| ($ thousands) | Project Delivery | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | $ - | $ 233,278 | $ - | $ 233,278 |
| Project delivery fees | 31,316 | - | - | 2,924 | 34,240 |
| Management fees - GREP | - | 51,035 | - | - | 51,035 |
| Management fees - Corporate Realty | - | 4,893 | - | - | 4,893 |
| Project transaction and recoverable costs | 37,336 | 4,444 | - | 8,337 | 50,117 |
| 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 and recoverable costs | 36,696 | 4,444 | - | 8,337 | 49,477 |
| 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 |

## 20. COMPARATIVE FIGURES

Project transaction fees and recoverable advisory and other costs have been combined and presented as project transaction and recoverable costs on the Statement of Operations and Accumulated Surplus and Segmented Information.

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