Infrastructure Ontario







Ontario Infrastructure and Lands Corporation

ANNUAL REPORT

2011-2012

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MESSAGE FROM THE CHAIR AND CEO

This marks the first Annual Report of Ontario Infrastructure and Lands Corporation, the new "Infrastructure Ontario", which came into being on June 6, 2011 following the consolidation of the Ontario Infrastructure Projects Corporation, the Ontario Realty Corporation and the Stadium Corporation of Ontario Limited.

Infrastructure Ontario had a tremendous year in 2011-2012, with six AFP projects delivered as planned; six projects reaching substantial completion; $3.7 billion in loans outstanding; $88 Million in land sales; 100 per cent of building projects delivered on-budget and a 26 per cent reduction in electricity use (against the base year of 2002-03). These accomplishments are all the more notable given that they occurred during a year in which the three agencies were merged.

I would like to commend all of the staff at Infrastructure Ontario for their tireless efforts which year-in and year-out enable the agency to achieve its objectives. Their dedication and commitment to delivering results that meet government expectations is something that I'm very proud of. I would also like to thank Minister Chiarelli and his ministry's staff for their continued support, and express my gratitude to my fellow IO Board members for their commitment and dedication, especially through a year of transition.

The past year also saw the departure of David Livingston, who over the course of the past six plus years built Infrastructure Ontario into a world-class agency. Speaking personally, and on behalf of the Board, I want to thank David for his leadership, his dedication, and his tireless efforts in helping to make Infrastructure Ontario what it is today.

With a merger comes change, but also the potential for new opportunities. The government continues to see Infrastructure Ontario as a key partner in the delivery of Building Together, Ontario's long-term infrastructure plan, as evidenced by the assignment of a healthy pipeline of projects. Moreover, the 2012 Ontario Budget announced new areas where Infrastructure Ontario's expertise would be applied, including the Realty Transformation Strategy and the government's review of its assets. Indeed, we have a lot to be excited about at Infrastructure Ontario as we move into 2012-13.

Going forward, Infrastructure Ontario will continue its commitment to providing excellent service to all of its customers, while at the same time ensuring that taxpayers receive value for their money.

Sincerely,

D. Anthony Ross
Chair and Chief Executive Officer
Infrastructure Ontario

WHO WE ARE

Infrastructure Ontario is a crown corporation wholly owned by the Province of Ontario and established by the *Ontario Infrastructure and Lands Corporation Act, 2011* that defines our responsibilities to our shareholder. Infrastructure Ontario is guided by Provincial Capital Plans which build on the success of ReNew Ontario and the Province's Building a Better Tomorrow framework.

We have five businesses that deliver results directly to clients – Major Projects execution for provincial and other Ontario public sector customers; Lending to broader public sector entities in Ontario; Ontario Lands to meet short and long term multi-year portfolio plan objectives; Real Estate Management to satisfy our responsibilities as a landlord to public services in Ontario; and Corporate Development to assist the government in its reform efforts.

Infrastructure Ontario's five businesses are supported by professional staff in Communications, Program Management, Legal Services, Human Resources, Information Technology, Procurement, Finance, and Risk Management.

The Agency is also the financial manager of the Crown's owned and leased portfolio that is the responsibility of the Minister of Infrastructure, the General Real Estate Portfolio (GREP).

VISION AND VALUES

Our Vision

To be recognized as world class in the modernization of public services.

Values

Respectful

- We believe honesty and humility are critical to creating a culture of trust with our owners, employees, partners and clients – we are guided by our values

Resourceful

- We foster collaboration, communicate openly, seek innovation, celebrate success and learn from our mistakes – we constantly look for solutions

Results Driven

- We are accountable and responsive – we focus on getting things done

Responsible

- We act with integrity – we are determined to do the right thing

BOARD AND GOVERNANCE

Corporate Governance

Infrastructure Ontario's corporate governance structure is set out in the *Ontario Infrastructure and Lands Corporation Act, 2011*. It will also be set out in the new Memorandum of Understanding (MOU) that will be entered into with the Minister of Infrastructure. Infrastructure Ontario is classified as an Operational Enterprise Agency in accordance with Management Board of Cabinet's Agency Establishment and Accountability Directive.

Infrastructure Ontario is owned by the Provincial Government. The Chair, Board of Directors and the Chief Executive Officer are appointed by the Lieutenant Governor-in-Council. Further, as part of Infrastructure Ontario's commitment to good governance, the Corporation prepares an annual report in accordance with Management Board of Cabinet directives. This report is approved by the Board of Directors and submitted to the Minister of Infrastructure for tabling in the Ontario Legislature.

Board of Directors

Infrastructure Ontario is governed by a Board of Directors. The *Ontario Infrastructure and Lands Corporation Act, 2011* provides for the Board to be composed of up to 13 members appointed by the Lieutenant Governor-in-Council.

The role of the Board is to oversee the management of the business and affairs of Infrastructure Ontario. In fulfilling this role, the Board is expected to exercise judgment in approving Infrastructure Ontario's strategic direction, monitoring performance and reporting to the Minister of Infrastructure, through the Chair, on relevant issues.

Infrastructure Ontario Board Members Terms of Appointment

Name	Current Term
D. Anthony Ross, Chair	June 6, 2011 – March 31, 2013
Patrick J. Dillon	June 6, 2011 – September 5, 2012
Mitch Kowalski	June 6, 2011 – January 14, 2013
Karen H. Weaver	June 6, 2011 – January 14, 2013
Carol Gray	June 6, 2011 – January 23, 2013
Linda D. Robinson	June 6, 2011 – February 20, 2013
Jim Schwindt	June 6, 2011 – February 20, 2013
Lawrence Kelly	June 6, 2011 – May 3, 2013
Isabel Meharry	June 6, 2011 – August 23, 2013
Darija Scott	June 6, 2011 – August 23, 2013
Gadi Mayman	June 6, 2011 – January 23, 2014
John Swinden	June 6 , 2011 – January 26, 2014

Board Committees

Audit Committee

The Audit Committee is responsible for overseeing Infrastructure Ontario's enterprise risk management and financial reporting. It reports to the Board of Directors, assisting it in discharging its oversight responsibilities relating to Infrastructure Ontario's financial performance.

Risk Committee

The purpose of the Risk Committee is to ensure that Infrastructure Ontario adheres to the Credit Risk Policy and the Asset Liability Risk Management Policy approved by the Board of Directors to recommend policies to the board, approve real property transactions within its limits and monitor Infrastructure Ontario's risk profile.

Governance and Compensation Committee

The role of the Governance and Compensation Committee is to make recommendations to the Board with respect to the composition of the Board and its committees, and to promote a set of corporate governance principles aimed at fostering a healthy governance culture at Infrastructure Ontario. The Committee is also responsible for reviewing and recommending staff compensation and succession plans and for providing oversight of the corporation's pension and benefit plans.

Governance and Accountability

Delegations of Authority

In September 2011, the Board of Directors revised the Delegations of Authority to ensure clear accountability at every level for all of Infrastructure Ontario's activities and transactions.

Freedom of Information

Infrastructure Ontario received a 100 per cent compliance rate for all Freedom of Information (FOI) requests (15) received and completed by the end of the fiscal year. All requests were processed within the prescribed legislative timeframe to ensure timely responses and sustained transparency.

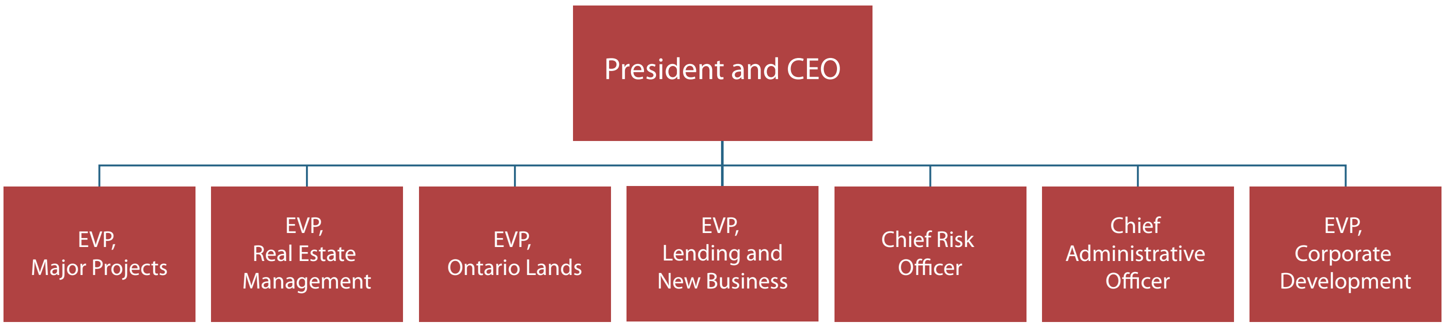
Management Committees

Management monitors corporate and business unit issues through various committees and regular reporting to ensure the timely resolution of those issues. These committees serve as forums to address issues in a timely fashion with a broad cross-section of Infrastructure Ontario participants and executives. Key committees at Infrastructure Ontario include the AFP Steering Committee, Credit Committee, Operations Committee and Real Estate Steering Committee.

ORGANIZATIONAL OVERVIEW

Organizational Chart

Infrastructure Ontario is organized in seven functional areas; Major Projects, Real Estate Management, Ontario Lands, Lending and New Business, Risk Management, Corporate Services and Corporate Development as illustrated in the figure below:



Major Projects

Major Projects is responsible for managing the delivery of public infrastructure projects. The work ranges from managing procurement and negotiating contracts with private sector consortia, to project management from procurement through to construction completion.

Real Estate Management

The Real Estate Management division is comprised of three groups: Asset Management, Realty Services and Client Program Delivery.

The Asset Management group oversees various private sector service providers to leverage their expertise in the delivery of regional property services to its clients and tenants. These services include facility management and project management. The group also executes the long term asset and capital investment programming for the Ministry of Infrastructure portfolio.

The Realty Services team ensures the Ontario government's broader commitments are supported by developing, recommending and implementing real estate programs and property due diligence, leasing initiatives, including building and energy management, municipal planning approvals, environmental management, accessibility, security, cultural and heritage management.

The Client Program Delivery group works closely with client ministries and develops real estate accommodations options and capital program planning requirements to deliver efficient, quality projects and solutions and real estate due diligence reviews.

Ontario Lands

The Ontario Lands group leads strategic portfolio reviews, rationalization and alternate use plans including review and implementation of real estate development via joint ventures and sale leasebacks. The group is also charged with the disposition of provincially-owned properties and acquisition of land on behalf of the client ministries.

Lending and New Business

Lending and New Business is responsible for Infrastructure Ontario's Loan Program, developing new business opportunities for Infrastructure Ontario's divisions, and providing communications support to the entire organization.

The group's mandate is to grow the business lines by coordinating advisory services to ministries, municipalities, universities and other public bodies on potential infrastructure delivery opportunities and commercial transactions. The Loan Program provides Ontario municipalities, universities and other broader public sector entities with access to affordable loans to build and renew public infrastructure.

Corporate Development

Corporate Development has three key responsibilities: supporting the expansion of *ServiceOntario* through new private sector partnerships; unlocking new forms of value in Ontario's public sector to help ensure that the value of physical and intellectual assets is being fully realized; and identifying opportunities for social venture financing that demonstrate cost savings while maintaining or enhancing service levels.

Risk Management

Risk Management supports the organization by monitoring and accounting for corporate-wide risk management activities. This includes the Treasury and Risk Management team which manages Credit Risk, Interest Rate Risk, Funding and Liquidity Risk. As well, support for the Enterprise Risk Management framework, an integrated risk management approach overseen by the Chief Risk Officer, is provided by the Risk Management division.

Risk Management also provides corporate support in the areas of legal, procurement, and business planning.

Corporate Services

Corporate Services is responsible for providing services to the entire organization in the areas of finance, program management, human resources and information technology.

2011-12 PROGRESS AND RESULTS

I. Corporate Objectives

Corporate Objective	2011-12 Target(s)	Results
1. High Performance Volume	• Six AFP projects delivered as planned • $3.7B in loans outstanding at year end • $85M in land sales • 100% of building projects delivered as planned	• Six projects at RFP Close • $3.8B in loans outstanding • $88M in land sales • 100% of building projects delivered as planned
2. High Performance Quality	• 100% of AFP projects delivered on-budget • 100% of building projects delivered on-budget • 20% electricity reduction against base year of 2002-03	• 100% of AFP projects delivered on-budget • 100% of building projects delivered on-budget • 26% electricity reduction for IO managed government-owned facilities
3. High Client Satisfaction	• 75% level of satisfaction for clients – average of survey scores across all business lines	• 90% level of satisfaction for clients
4. New Opportunities	• 20 Projects over three years are assigned to maintain a pipeline for the market • New revenue generating activities are developed to grow IO • Strategic initiatives of the government to realize its reform efforts will be executed	• 20 projects assigned • Generated $5.869M in new revenue • IO to be involved with government's reform efforts
5. Strong Fiscal Performance	• Operating expense budget is beaten • New ways are found to lower ancillary and advisor costs • Space vacancy rate less than 4% across government • Merger savings targets are achieved	• Actual operating expenses $5M below budget • Ancillary and advisor costs lowered by $1.15M • Space vacancy rate at 2.6% • Reduction in government funding of $7.2 million due to merger savings.
6. Exemplary Work Place	• Remain one of the "Best Places to Work"	• IO did not make the 2012 Best Work places in Canada list

2011-12 PROGRESS AND RESULTS

II. Ministry of Infrastructure Priorities

In addition to its legislative mandate, Infrastructure Ontario is also called upon to help deliver key government objectives and priorities. In 2011-12, Infrastructure Ontario assisted with a number of such initiatives, including:

- Achieving the Management Board of Cabinet approved space standard of an average 200 rentable square feet (rsf) or less per Full-Time Equivalent (FTE) in new office space leases and relocated office space (government owned and leased) across the OPS portfolio:
  - Infrastructure Ontario through Client Program Delivery ("CPD") prepares a Real Estate Options Analysis for all ministry requests for new office space including relocations and expansions
  - The Real Estate Options Analysis collects ministry program requirements including FTE's and recommends a square footage requirement based on current space policy of maximum 200 rsf per FTE
  - CPD presents the Real Estate Options Analysis to the ministry and will also recommend underutilized ministry space first, vacant government owned space second or third party vacant space before considering a lease search
  - Once the ministry agrees, CPD ensures any lease search or accommodation project/design that results complies with the maximum 200 rsf per FTE
  - Examples this past fiscal year include 222 Jarvis phase 1, CPD co-led the design process with the design team and the ministries to ensure 180 rsf per FTE was achieved with 1,350 MGS FTE's and the Workplace Environment Guideline was applied. CPD is playing the same role for 222 Jarvis phase 2 with 600 MGS FTE's
- Attaining BOMA BESt certification (for facilities over 90,000 square feet) in a total of 77 facilities by 2012-13:
  - Thirteen certifications were completed in 2011-12, bringing the total number of certifications to 70
  - The remaining seven certifications are planned for 2012-13

2011-12 PROGRESS AND RESULTS

III. Other Accomplishments

Highlights

- Acted on requests for advisory services from government ministries and agencies, as well as entities in the Broader Public Sector:
  - Undertook a market capacity study for the long-term care sector
  - Provided project management advisory services for Mount Sinai Hospital's Women's and Infants' Project on behalf of the hospital and Ministry of Health and Long Term Care
- Commenced design of the Central Public Health Laboratory, to be constructed in the MaRS Phase II building in Toronto, on behalf of Public Health Ontario
- Design completed for the energy consumption tracking system and energy data repository for all provincial government buildings
- Developed a comprehensive elevator management program for all elevating devices operating within the government-owned portfolio
- Enhanced communications with client ministries and tenants through regular meetings, dashboards and newsletters
- Disaster relief efforts:
  - Supported Ministries requiring accommodations in Goderich following the tornado
  - Assisted in readying multiple facilities to house evacuees from forest fires
  - Supported client ministries in reinstituting operations following fires in facilities in Sault Ste. Marie and W. Ross MacDonald school in Brantford
- Developed dashboard reporting for all business lines to better monitor and manage performance against the corporate objectives
- Introduced standardized MOI quarterly reports for the Ontario Lands and Real Estate Management divisions and developed the MOI portal to streamline access to information for MOI

Examples of Awards

- ### Robinson place:
  BOMA “The Office Building of the Year” (TOBY) award in the Government Building category, 2011

- ### Garden City Tower (St. Catharines):
  BOMA Toronto “Earth Award”, 2011

- ### West Don Lands & Pan/Parapan American Athletes’ Village:
  Excellence in Project Development – Neighbourhood Scale, Canadian Brownfields Conference, 2011

- ### MGS Data Centre:
  Silver Award for Infrastructure from Canadian Council for Public-Private Partnerships, 2011

- ### Durham Region Courthouse:
  Eight awards including the Silver Award for Service Delivery from Canadian Council for Public-Private Partnerships and the Financing Risk Management and Partnership award at the Canadian Brownfields conference, 2011

- ### Infrastructure Ontario Geoportal:
  First Place, GTEC Distinction Awards for “Transforming the Business of Government” and URISA Ontario Chapter Best Public Sector GIS Gold Award, 2011

- ### Roy McMurtry Youth Centre:
  Five awards including Citation from the American Institute of Architects and the Academy of Architecture, 2010

- ### Women’s College Hospital:
  National Award of Merit for Project Financing, Canadian Council of Public-Private Partnerships, 2010

- ### Niagara Health System:
  National Award of Merit for Project Financing, Canadian Council of Public-Private Partnerships, 2009

Real Estate Management Projects

222 JARVIS STREET, TORONTO

KEY FACTS:

- The retrofit and modernization of the 455,000 square foot government building located at 222 Jarvis Street in Toronto is one of North America's largest "green" building retrofit projects.
- The retrofit has transformed the iconic 222 Jarvis Street building into an accessible, energy efficient, environmentally-sustainable, Leadership in Energy and Environmental Design certified "green" building.
- Base building construction at the building has been completed.
- The interior office fit up will prepare the program area to be occupied by the Ministry of Government Services IT staff for phase 1.
- Staff will undergo a phased-in occupancy commencing in early 2013 for phase 1.

GREEN FEATURES:

- Use of low-emitting materials, including adhesives, sealants, paints, coatings and carpet, which reduce the emission of indoor air pollutants
- Heating, Ventilating and Air Conditioning (HVAC) and controls upgrades
- State-of-the-art IT infrastructure, including wireless technology to reduce the need to travel to meetings
- Power demand monitoring and reporting
- Grey water recovery to conserve fresh water supply (involves the reuse, treatment, filtration, or irrigation of water from building systems to reduce fresh water usage)
- Limited parking capacity, access to public transit, bicycle storage and changing rooms to encourage use of alternative modes of transportation

ACCESSIBILTY FEATURES:

- Exterior and interior access ramps
- Power door operators on accessibility routes
- Barrier-free washrooms available on all floors
- Accessible washrooms available on all program floors
- Widened circulation in common spaces and corridors for ease of wheelchair access
- Widened primary and secondary corridors
- Colour and textural contrasting for persons with vision disabilities
- Tactile signage
- Barrier-free elevators which will allow access to each floor

BACKGROUND:

The retrofit of 222 Jarvis Street is creating a workplace that is more energy and space efficient, resulting in savings once the project is complete by reducing annual operating costs and capital cost avoidance.

TRILLIUM COURT, TOWN OF LASALLE

KEY FACTS:

- Trillium Court is owned by River Park Non-Profit Housing Corporation and is a social housing development in south-western Ontario consisting of 56 homes located in the town of LaSalle on property required for the construction of the new Windsor-Essex Parkway.

- The Ministry of Transportation approached Infrastructure Ontario in 2009 for assistance with delivering a solution for relocating the Trillium Court residents to a new location so that the existing site would be available for highway construction no later than July 2012.

- Through a competitive process, Archon Architects of Windsor was selected to design the new homes for Trillium Court. Oscar Construction, another Windsor area company, was awarded the contract to build the new homes, also procured in an open competition. Construction commenced in August 2011 and was completed in June 2012.

BACKGROUND:

- A tenant advisory group comprised of Trillium Court residents provided comments and input on improved unit designs and what features they wanted to see. Where possible, this feedback was incorporated into the final design. The new homes feature modern open-concept designs, new Energy Star rated appliances, high efficiency light fixtures, air conditioners, furnaces and hot water heaters, programmable thermostats and heat recovery ventilation systems.

- Regular newsletters kept Trillium Court residents current with project information, progress reports, timelines, invitations to public meetings, to-do checklists, site plans and photos of their new homes in various stages of construction.

- Following the move-out of the old housing complex, the property was turned over to the Ministry of Transportation, and the buildings were demolished to make way for the Windsor-Essex Parkway.

Sales

90 HARBOUR STREET, TORONTO

KEY FACTS:

- Menkes Developments Ltd. and the Healthcare of Ontario Pension Plan Realty Inc. jointly purchased the building and property located at 90 Harbour Street in Toronto following an open, fair and competitive process. The sale was success fully completed on July 15, 2011 and is seen as a win-win solution for the Province and the City of Toronto.
- The sale of the 90 Harbour Street property involved ongoing collaboration with the City of Toronto and several provincial ministries and agencies.
- The site is planned to be redeveloped primarily for a residential use that will enhance the profile of the downtown and waterfront area in addition to creating a new revenue tax base for the City of Toronto. The new owner is obligated to protect various heritage elements of the building by cataloguing these features and preserving them for reincorporation into a new development.

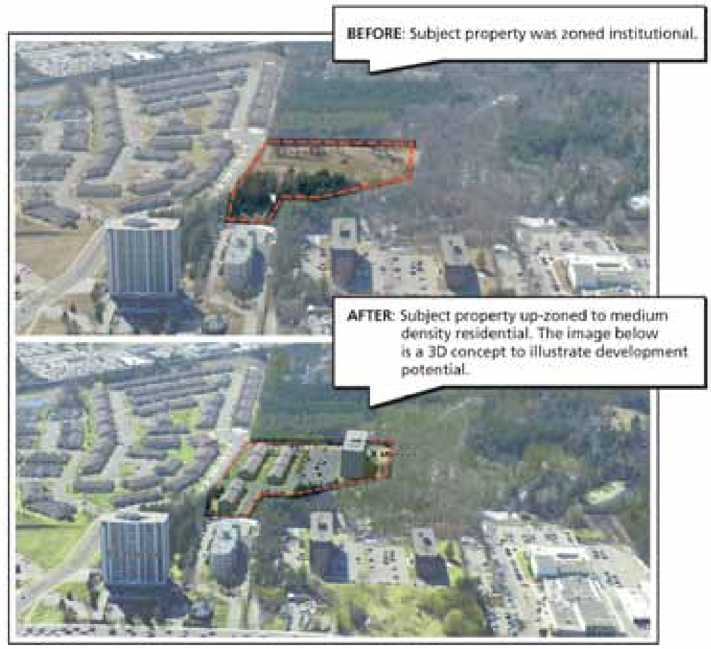
SALE STATISTICS:

- The sale of 90 Harbour is the highest price ever paid for a high density land transaction in Canada on a rate per acre basis (over $30M per acre).
- The sale of 90 Harbour ranks as the third highest price ever paid for a high density land transaction in Canada on a pure dollar value basis ($76M).

BACKGROUND:

- The 2.5 acre property is located at 90 Harbour Street in Toronto. There is a vacant building on the property with 160,000 square feet of office space. The original use of the property was to accommodate the Ontario Provincial Police and the Workmen's Compensation Board.
- The property was deemed surplus to the government's needs. In accordance with Infrastructure Ontario's sales guidelines and procedures, the property was circulated to the municipality and the federal government to determine if there was a continued public sector need for the site.
- The property was listed on the open market in July 2010 and an aggressive marketing campaign was conducted (this included news paper advertisements, signage, flyers and a marketing package).
- On October 19, 2010, Infrastructure Ontario entered into a conditional Agreement of Purchase and Sale (APS) with one of the six parties who submitted an offer for the purchase of the property on an "as is, where is" basis.
- Further negotiations ensued which allowed for all conditions to be waived and the transaction was completed on July 15, 2011.

FORMER WATERLOO DETENTION CENTRE, CAMBRIDGE



KEY FACTS:

- This project involved a 5.89 acre site in Cambridge, Ontario, which was formerly a detention centre, and is located between a conservation area and a residential subdivision.
- By leveraging its expertise in strategic advice and implementation, Infrastructure Ontario achieved a net value gain of approximately $750,000 over the "as-is" value after developing and pursuing a value enhancement strategy. This included rezoning approval to allow for a medium density residential development.
- This project showcased municipal and provincial planning objectives for urban intensification and generated additional revenue for the Province.

SALE STATISTICS:

- January 31, 2012 final sale: $2.8 million, net gain: $750,000.
- 2007 – 2011: Executed strategy, completed studies, secured planning approvals, and transferred environmental liability. Cost $250,000.
- 2006: "as-is" value $1.8 million.

BACKGROUND:

- After the detention centre closure in 2002, Infrastructure Ontario reviewed the asset for potential government accommodation, and determined the site was surplus to government needs.
- Executed strategy to obtain municipal approval to rezone the property from institutional to medium density residential by building strong working relationships and support from key stakeholders.
- Worked with broker to market the property, reviewed bids, negotiated terms of sale, transferred environmental liability to the purchaser, and leveraged the project team to advise throughout the process.
- Undertook due diligence (environmental, built heritage, archaeology, land use planning).

Loans

PETERBOROUGH UTILITIES INC. - LILY LAKE SOLAR FARM

In 2011, Peterborough Utilities Inc. completed construction of the Lily Lake Solar Farm. Financed in part by Infrastructure Ontario, the Lily Lake Solar Farm is a 10 megawatt (MW) solar photovoltaic generating facility located in the Township of Smith-Ennismore-Lakefield. It is the first project in Ontario of this scale developed by a municipal corporation. The facility produces enough stable and clean 'green' energy to supply approximately 1,500 homes and offsets greenhouse gas emissions by 2,200 tonnes per year. The extra supply of green energy results in reduced demand for electricity on the grid.

Loan Amount: $35,475,000.00
Project Amount: $47,300,000.00

CATHOLIC YOUTH ORGANIZATION – MARYDALE PARK

In 2011, the Catholic Youth Organization, partnered with Infrastructure Ontario to help finance the Phase 1 development of Marydale Park, Ontario's first barrier-free park located on Hamilton's South Mountain. The park will offer wide open spaces, paved pathways and plenty of barrier-free sports and recreation amenities for children and adults of all abilities. In addition to being barrier-free, Marydale Park also has an eco-friendly design including the use of renewable energy through wind and solar resources.

Loan Amount: $2,376,341
Project Amount: $5,705,153

Alternative Finance and Procurement (AFP) Projects

OPP MODERNIZATION

Location: 16 communities across Ontario
Project Type: DBFM - Design Build Finance Maintain
Infrastructure Type: Justice
Price of Contract: $292.7 million
Estimated Value for Money: $51.3 million

ABOUT THE PROJECT:

- The project involves the construction of 18 new Ontario Provincial Police detachments, regional headquarters and forensic identification services in 16 communities across Ontario.

- The new facilities, which in many cases are replacing buildings that have exceeded their useful life, will feature up-to-date amenities to better support the demands of modern police operations and meet the needs of the community.

PROJECT FEATURES:

- Seven new detachment facilities between 10,000 and 15,000 square feet include administration space, evidence vaults and proper processing areas, fingerprint rooms, holding cells, a multi-purpose boardroom and infrastructure to meet technology requirements.

- Three new regional headquarters feature the most up-to-date technology and design between 30,000 and 60,000 square feet and accommodate between 75 and 200 Ontario Provincial Police members.

- Eight new forensic identification services between 13,000 and 16,000 square feet and include modern, safe and secure labs with biohazard suites and storage areas.

COMMUNITY AND GREEN BENEFITS:

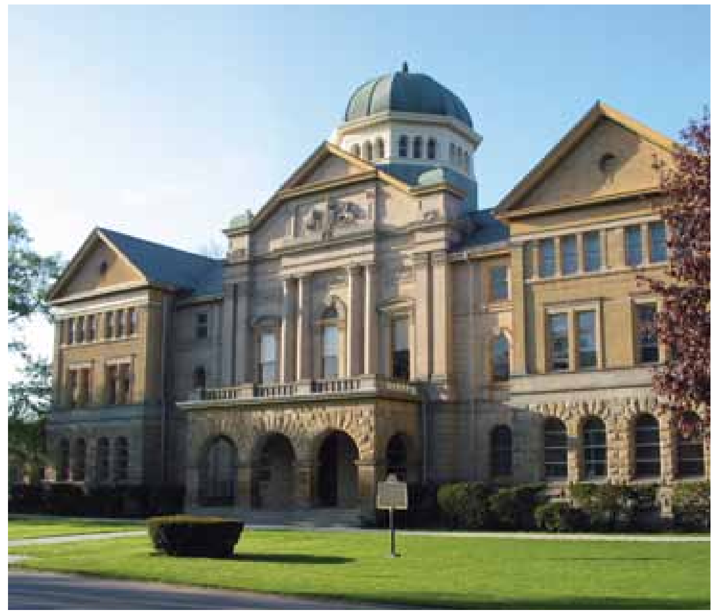
- New Ontario Provincial Police facilities will provide Ontario with more efficient and effective policing infrastructure that will enhance community safety and support Ontario's justice system.

- The new Ontario Provincial Police facilities buildings are designed and built to meet the Leadership in Energy and Environmental Design Silver standards, incorporating environmentally sustainable construction practices and energy efficient design.

ECONOMIC BENEFITS:

- The project is helping to provide economic stimulus by creating and supporting jobs across Ontario. Construction labour for the project is being drawn from across the province.

ST. THOMAS CONSOLIDATED COURTHOUSE



Location: St. Thomas, Ontario
Project Type: DBFM - Design Build Finance Maintain
Infrastructure Type: Justice
Price of Contract: $249 million
Estimated Value for Money: $27.1 million

ABOUT THE PROJECT:

- The St. Thomas Consolidated Courthouse will bring together existing court facilities within one location in St. Thomas.
- The new building will consolidate the Superior Court of Justice and the Ontario Court of Justice into one modern facility.

PROJECT FEATURES:

- The new courthouse will be constructed on the site of the historic Elgin County Courthouse and Land Registry Office, which will be extensively refurbished and incorporated into the new facility.
- Eight courtrooms and three conference/settlement rooms with sufficient capacity to meet the needs of the community for the next 30 years.

COMMUNITY AND GREEN BENEFITS:

- The consolidated courthouse will improve justice services in the community by increasing the number of available courtrooms and by providing improved public access and security.
- The courthouse will be designed and built to meet the Leadership in Energy and Environmental Design Silver standards, in corporating environmentally sustainable construction practices and energy efficient design.

ECONOMIC BENEFITS:

- At the peak of construction, it is estimated that 120 workers will be on the courthouse construction site daily.

IV. Stakeholder Outreach

Cultivating strong partnerships with stakeholders has always been a significant priority for Infrastructure Ontario. Since the merger of Infrastructure Ontario and Ontario Realty Corporation, continuing in the spirit of open and respectful dialogues and consultations on issues with industry has become more important than ever.

In an effort to continue building and maintaining strong, positive and lasting relationships with key stakeholders, Infrastructure Ontario has developed a robust stakeholder engagement program. The program includes formal industry committees to discuss issues and solutions, regular market soundings and consultations, partnerships on research and industry whitepapers, event sponsorships, attendance at industry meetings and conferences, engagement days and annual meetings, and distribution of regular communications materials.

Strategic Opportunities Committee

Following the merger, Infrastructure Ontario continued to meet with the Strategic Opportunities Committee (SOC) in order to maintain collaboration with industry in an effort to share issues, resolve conflicts and identify opportunities for Infrastructure Ontario and the industry to work together. The committee, which includes senior executives from Infrastructure Ontario and the heads of the Ontario Association of Architects, Ontario General Contractors Association, Consulting Engineers of Ontario and Association of Registered Interior Designers of Ontario, as well as Infrastructure Ontario's project services service providers – CBRE, MHPM and SNC Lavalin O&M.

The SOC meets on a quarterly basis. In addition, a number of subcommittees meet several times per year. Due to these discussions, members have reported that certain issues, such as project close-out timing, have improved dramatically. Finally, the SOC publishes communiqués to update the entire industry on issues.

Local Construction Associations

To further enhance collaboration with industry, Infrastructure Ontario continues to meet with local construction associations from across the province. At these meetings, Infrastructure Ontario hears first-hand of issues affecting local firms, as well as updates on key initiatives. Infrastructure Ontario will continue meeting with these firms in 2012-13, with the emphasis of strengthening Infrastructure Ontario's relationship with industry.

Ongoing Consultations

In support of the Ontario government's long-term infrastructure plan *Building Together* announced in June 2011, Infrastructure Ontario continues to work closely with leaders in the construction, engineering and design industries on issues and initiatives, in order to get a good grasp of views, objectives and challenges. Infrastructure Ontario has also utilized industry working groups to strengthen its procurement approach for both AFP/Major Projects and Real Estate Management projects. Infrastructure Ontario will continue working with these groups across industry to find solutions with mutual benefits.

V. Contributing to the Community

Infrastructure Ontario Gives Back is an employee-led committee driven to promote a philanthropic culture at Infrastructure Ontario. In the past year, Infrastructure Ontario Gives Back has supported Federated Health, United Way, Children's Aid Society, Habitat for Humanity, Red Cross, Heart and Stroke Foundation and the Daily Bread Food Bank. Key accomplishments in 2011-12 include:

- Over 35 Infrastructure Ontario employees participated in two Habitat for Humanity builds to assist families in need of housing
- Supported the Federated Health Campaign
- Raised over $47,000 for United Way, achieving a staff participation rate of 64 per cent
- Raised over $9,000 to sponsor 19 families and 38 youth through Children's Aid Society's Secret Santa Program

FUNDRAISER FOR GLEN GRAY

On May 28, 2010 our colleague Glen Gray passed away at home after bravely battling an illness. In his memory, his family purchased a seat in his name at Koerner Hall at the Royal Conservatory of Music (RCM). IO Gives Back, with full support from our Senior Executive Team, hosted a fundraiser on April 14, 2011 at the RCM. Through ticket sales and generous support from the Senior Executive Team, $2,500 was raised and helped support the purchase of this seat in Toronto's intimate and acoustically superb 1135 seat concert hall.

UNITED WAY CAMPAIGN:

Infrastructure Ontario's employee contribution to the United Way through payroll deduction, one-time donations and special events was the largest ever from Infrastructure Ontario. Our final participation rate for the campaign — 64 per cent — also speaks to how much we value the importance of giving back to our communities and coming together to support a great cause. The United Way has recognized Infrastructure Ontario on its Employee Honour Roll, published in the Globe and Mail.

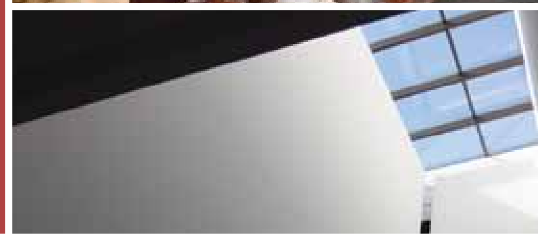
INFRASTRUCTURE ONTARIO ALL STAFF DAY:

Last December during Infrastructure Ontario's All Staff Day, Infrastructure Ontario staff put together gift baskets for the residents of the new YWCA's Elm Centre.

Ontario Infrastructure and Lands Corporation
(Infrastructure Ontario)

Management Discussion and Analysis

For the year ended March 31, 2012



MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Infrastructure Ontario is a Crown corporation reporting to the Minister of Infrastructure (Minister) and is classified as an Operational Enterprise Agency in accordance with the Agency Establishment and Accountability Directive. Infrastructure Ontario is governed by a Board of Directors pursuant to a Memorandum of Understanding with the Minister that sets out Infrastructure Ontario's accountability framework.

Infrastructure Ontario has four businesses that deliver results to public sector clients: Major Project execution for provincial and other Ontario public sector customers; Lending to broader public sector entities in Ontario; Ontario Lands to meet short and long term multi-year portfolio plan objectives; and Real Estate Management to satisfy the Province's responsibilities as a landlord to public services in Ontario. In fiscal 2011/12, Infrastructure Ontario added a fifth line of business, Corporate Development, to advise the Province how to unlock new forms of value in Ontario's public sector and ensure that the value of physical and intellectual assets is being fully realized; and, to identify opportunities for social venture financing that demonstrate cost savings while maintaining or enhancing service levels.

Infrastructure Ontario's businesses are supported by professional staff in Communications, Program Management, Legal Services, Human Resources, Information Technology, Procurement, Finance and Risk Management.

The Agency is also the financial manager of the Crown owned and leased portfolio that is the responsibility of the Minister, the General Real Estate Portfolio (GREP).

This Management Discussion and Analysis (MD&A) is intended to provide an overview of Infrastructure Ontario's financial activities for the year ended March 31, 2012 and should be read in conjunction with the audited financial statements for the year ended March 31, 2012 and related notes.

Highlights

On June 6, 2011, pursuant to the OILC Act, Ontario Infrastructure Projects Corporation (OIPC), Ontario Realty Corporation (ORC) and Stadium Corporation of Ontario Limited (STADCO) were amalgamated and continued as a corporation without share capital under the name of Ontario Infrastructure and Lands Corporation (Infrastructure Ontario/Agency).

OIPC and ORC had complementary operating mandates prior to the amalgamation, which are being continued by Infrastructure Ontario. STADCO divested itself of its assets and liabilities prior to amalgamation and brought no operations into the amalgamated corporation.

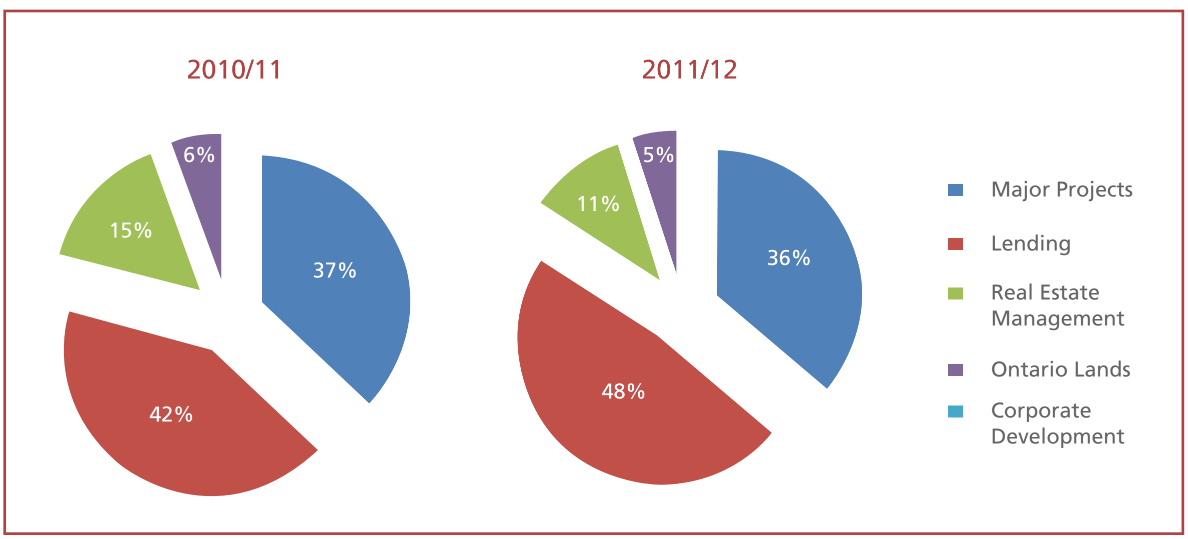
Accordingly, the current and comparative year financial statements include the entire year of operations for Infrastructure Ontario, OIPC and ORC, but not STADCO. The financial statements treat the two predecessor organizations as if they have always been a single reporting entity.

The Ontario Government stated that the purpose of the merger of OIPC, ORC and STADCO was to rationalize three similar operations and reduce redundant costs. The amalgamation was effective June 6, 2011; staffing was rationalized on June 9, 2011 and office space was consolidated September 30, 2011. The financial statements for the year ended March 31, 2012 do not reflect the full benefit of the restructuring because they include pre-merger and post-merger operations as well as certain merger costs. However, during the year ended March 31, 2012 Infrastructure Ontario reduced its funding from the Ministry of Infrastructure by $7.2 million for a total funding reduction of $9.2 million from the previous year.

Operating Results

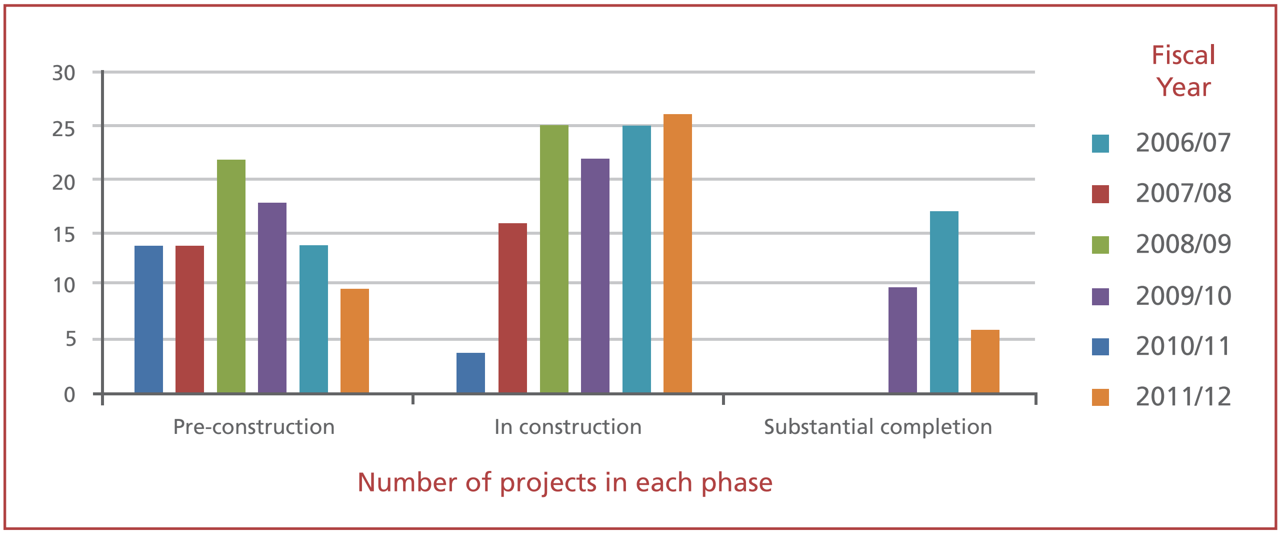
The MD&A discusses revenue and program expenses for the five lines of business (Reference Note 20 to the financial statements) and for the corporate operating expenses by function, in accordance with how the business is managed and how operations are classified for planning and measuring performance.

Revenue by Line of Business



Major Projects

Projects Construction Status



Revenue

Revenue for the year ended March 31, 2012 was $107.0 million, an increase of 8 per cent from $99.0 million for the prior year. Major Projects recognizes project delivery fees and transaction fees and related expenses during the construction phase based on the relative stage of completion of the project, commencing on financial close and ending at substantial completion. At March 31, 2012, Infrastructure Ontario had 26 projects in the construction phase, the highest number since its inception.

Nine projects reached financial close contributing $41.7 million of revenue and $34.0 million of costs for a gross margin of $7.7 million

- Air Rail Link Spur
- Humber River Regional Hospital
- Pan Am Athletes Village
- South West Detention Centre
- St. Joseph Parkwood Mental Health Centre
- Halton Healthcare Services
- London and St. Joseph's Health Centres
- Quinte Court House
- St. Thomas Court House

Six projects reached substantial completion, contributing $4.9 million of revenue and $1.5 million of costs for a gross margin of $3.4 million.

- Bluewater Health Centre (Sarnia)
- Kingston General Hospital
- Windsor Regional Hospital (Western Site)
- Hamilton Health Sciences - Henderson General Hospital
- Lakeridge Health Centre
- Woodstock General Hospital

In prior years, Major Projects received funding from the Ministry to defray operating costs. Major Projects is able to sustain its cost structure from its fee revenue and ceased receiving funding allocation from MOI in fiscal 2011/12, a reduction of $4.7 million from the prior year and $3.2 million in the year.

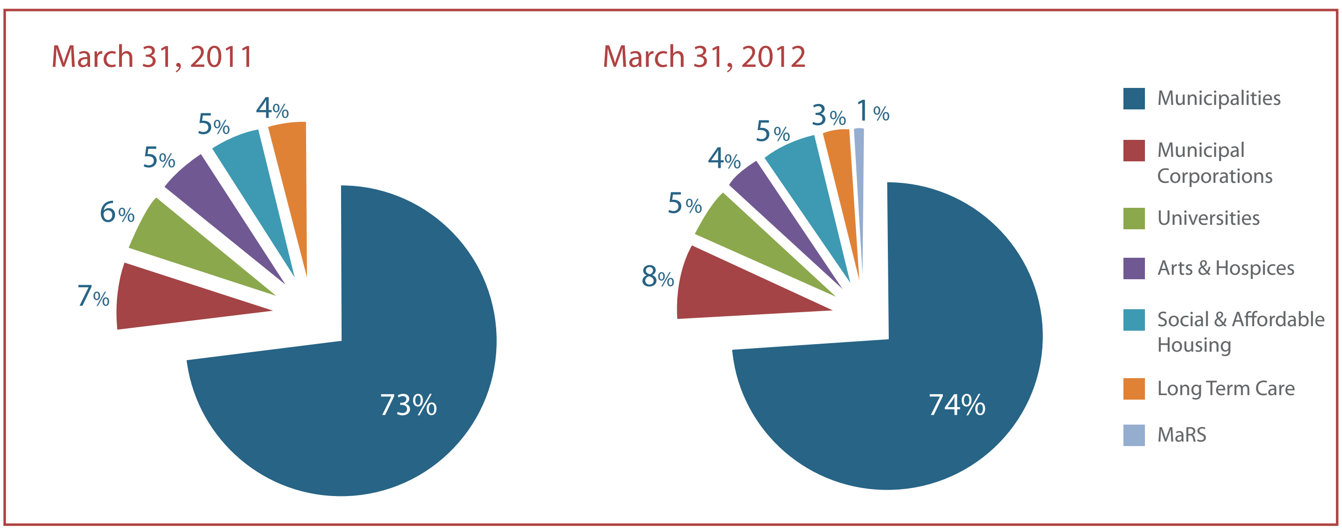
Program expenses

Program expenses increased 56 per cent to $73.7 million for the year ended March 31, 2012 from $47.3 million for the prior year.

- Ancillary costs were $41.9 million for the year ended March 31, 2012, an increase of $13.2 million from the prior year. Ancillary costs are charged to the project on a cost recovery basis. The increase in ancillary costs is due to a higher volume of projects, including more highway and rapid transit projects, which require more planning, environmental and development costs than social infrastructure, and the Toronto 2015 Pan/Parapan American Games venues.
- Transaction costs were $28.9 million for the year ended March 31, 2012, an increase of $13.3 million from the prior year. Transaction costs are deferred during pre-construction and the costs and related fees are recognized at financial close. Nine projects reached financial close in the year. In the year certain projects were cancelled and others deemed to be uncertain at year end, resulting in an expense of deferred costs of $2.2 million. Additionally, a provision for forecast cost overruns of $4.2 million was recorded, principally on one project.
- Interest on the OFA credit facility remained constant year over year. While the balance of the credit facility decreased from $123 million at March 31, 2011 to $83 million at March 31, 2012, the average balance outstanding in fiscal 2011-12 was $117 million compared to the average balance outstanding in fiscal 2010-11 of $111.5 million.

Lending

Profile of Loan Portfolio



In fiscal 2011-12, the Loan Program was expanded by the Ontario Government to include three new sectors that provide infrastructure with important public benefits: aboriginal health access centres; community health and social services hubs; and, non-profit sports and recreation organizations; in addition to the MaRS Discovery District development.

Revenue

Revenue for the year ended March 31, 2012 was $141.3 million, an increase of 25 per cent from $113.0 million for the prior year.

- Revenue from loan interest increased by $24.8 million, to $121.0 million from the prior year, due to higher loan volumes.
- Investment interest increased by $4 million to $20.1 million from the prior year from higher yields due to a change in the investment mix, with more investment in higher-yielding long-term bonds and less investment in short term money market funds.

Program expenses

Loan program expenses for the year ended March 31, 2012 were $133.3 million, an increase of 27 per cent from $105.0 million for the prior year.

- Interest expense on the loan program debt increased by $27.8 million, to $128.3 million, from the prior year due to increased borrowings and higher interest rates.
- Management reviewed its portfolio of loans at March 31, 2012 and determined it prudent to increase the valuation allowance against the portfolio to $3.7 million after the write-off of the Bancroft Light and Power loan of $1.8 million, resulting in an expense of $3.4 million, an increase of $1.2 million from the prior year.

Prior period adjustment

During the year, management determined that the amortization of premiums related to long-term bonds purchased in 2009 and 2010 had not been accurately reflected in the financial statements. The correction was accounted for retroactively with the following impact:

($,000)	March 31, 2012	March 31, 2011
Increase in amoritization	-	2,082
Decrease in accumulated surplus	3,180	1,098
Decrease in long-term investments	-	3,180

Real Estate Management

Revenue

Revenue for the year ended March 31, 2012 was $31.6 million, a decrease of 22% from $40.6 million for the prior year.

- Management fees for the year ended March 31, 2012 decreased $2.2 million to $18.6 million from the prior year. Facilities management fees increased in fiscal 2011/12 as they are calculated on operating and maintenance costs; however the increase was offset by reduction of an ancillary management fee of $4 million due to a reduction in the cost structure of Real Estate Management.
- Recoverable costs decreased $6.6 million for the year ended March 31, 2012 from the prior year due to the completion of a Project Management Information System (PMIS), which was charged back to GREP, and the transition of certain facilities management functions to CB Richard Ellis (CBRE).
- Infrastructure Ontario receives funding from the Ministry of Infrastructure to fund the corporate overhead cost for the Real Estate Management and Ontario Lands programs, which is allocated proportionately.

Program expenses

The program expenses for Real Estate Management are recorded in the financial statements for GREP, for which the Agency is the financial manager.

Ontario Lands

Revenue

Revenue for the year ended March 31, 2012 was $15.0 million, consistent with $15.2 million for the prior year.

- Ontario Lands, together with Hydro One Networks Inc., administers the Provincial Secondary Land Use Program and recovers its administration costs from the joint venture.
- Ontario Lands receives funding from the Ministry of Infrastructure through GREP for salaries and overhead related to two programs, the Long Term Planning Program (Multi Year Portfolio Plan/MYPP) and the Sales and Acquisitions Program (Planning Marketing and Development Expenses Reserve/ PMDER).
- Infrastructure Ontario receives funding from the Ministry of Infrastructure to fund the corporate overhead cost for the Real Estate Management and Ontario Lands programs, which is allocated proportionately.

Program expenses

The program expenses for Ontario Lands are recorded in the financial statements for GREP, for which the Agency is the financial manager.

Corporate Development

Corporate Development operates on a cost recovery basis in agreement with the Ministry of Finance and pursuant to a Letter of Direction from the Minister of Infrastructure. During fiscal 2011/12, the division incurred costs including salaries and benefits, general and administrative expenses and transaction costs, during the due diligence phase of its projects which have been deferred until revenue from its assigned projects is recognized.

Corporate Operating Expenses

Salaries and benefits

Salaries and benefits decreased $5.4 million, or 9.4 per cent for the year, to $51.8 million at March 31, 2012 from $57.2 million for the prior year. The decrease in salaries and benefits reflects the reduction in employees resulting from the amalgamation of OIPC and ORC. The employee count at March 31, 2012 was 446 (average for the year was 448 from an approved complement of 460) compared to 519 at March 31, 2011 (average for the year was 522 from an approved complement of 560).

Other operating expenses

Other operating expenses decreased $8.9 million, or 32 per cent for the year ended March 31, 2012 compared to the prior year. The reduction reflects reduced redundant costs resulting from the amalgamation of OIPC and ORC and the deferral of spending as new operating processes were implemented and new vendor contracts tendered. The administrative departments were integrated and were impacted the most by the amalgamation.

The most significant expense reduction is professional and consulting services, and the cost savings principally relate to information systems. The previously mentioned PMIS, which costs were charged back to GREP, was completed in fiscal 2010/11 and several information system projects planned for fiscal 2011/12 were cancelled or deferred pending a reassessment of the projects.

Restructuring Expenses

Infrastructure Ontario accrued restructuring costs of $7.1 million at March 31, 2011 related to the merger of ORC, IO and STADCO.

Infrastructure Ontario incurred period integration costs during the year ended March 31, 2012, of $0.87 million, principally related to systems integration, insurance, moving, intranet design and office redesign and merger-related consulting.

Statement of Financial Position

Accounts receivable

At March 31, 2012, accounts receivable were $72.8 million, no change from the prior year, however the mix has changed:

- $63.8 million of accounts receivable is project recoveries compared to $39.0 at March 31, 2011.

Loans Receivables and Debt – Loan Program

At March 31, 2012, loans receivables increased by 24 per cent, to $3.67 billion from $2.97 billion at March 31, 2011.

To fund the increase in loans, Infrastructure Ontario:

- Issued bonds to the Province of Ontario for proceeds of $585.0 million, for a balance of $1.6 billion at March 31, 2012;
- Borrowed $182.0 million from the Ontario Immigrant Investor Corporation, for a balance of $213.3 million at March 31, 2012; and
- Repaid $135 million in short term commercial paper, reducing the balance to $604.1 million at March 31, 2012.

The loan portfolio valuation allowance is maintained at a level that Infrastructure Ontario considers adequate to absorb valuation adjustments and losses on loans.

In the year, a $1.8 million loan receivable from Bancroft Light and Power Company (BLP) was written off by a charge to the loan valuation allowance. The court appointed a receiver, on May 16, 2012 to take possession of the utility and develop a disposition plan. The sale of the borrower's assets is expected to take approximately 10-15 weeks.

The loan valuation allowance was re-evaluated after the above charge and a provision of $3.4 million was expensed for a balance of $3.7 million at March 31, 2012 ($2.2 million at March 31, 2011). The allowance consists of specific and general allowances. Specific allowances consist of provisions for losses on identifiable loans for which carrying values are higher than estimated realizable values. The general allowance reflects collectability and risk of loss to the loan portfolio for loans which are considered to have occurred but cannot be determined on an item by-item basis. Loans are grouped according to similar credit risk characteristics and the level of the general allowance for each group depends upon an assessment of the historical and expected loss experience based on metrics published by Moody's, loan portfolio composition, and other relevant indicators. The general allowance is computed taking into consideration the probability of default (loss frequency), loss given default (loss severity), and exposure at default. This allowance, reviewed quarterly, reflects management's judgment of risks as well as economic and credit market conditions.

Projects Receivables

Projects receivables increased 32.3 per cent to $125.4 million at March 31, 2012 compared to $94.8 million March 31, 2011, primarily due to recognition of revenue related to nine projects in Major Projects that reached financial close for a total of 26 projects in the construction phase. Certain project recoveries, such as interest costs to finance receivables and the Infrastructure Ontario fee, are accrued during the construction phase of the project, commencing at financial close, and invoiced at substantial completion of the project.

Deferred Revenue

Infrastructure Ontario may be paid project costs in advance of incurring the expense or fees in advance of recognizing the revenue. These amounts are reported as 'Deferred Revenue' and are recognized into revenue based on the revenue recognition policy. Deferred Revenue increased 37 per cent from $13.9 million at March 31, 2011 to $19.1 million at March 31, 2012 primarily due to invoicing the TO2015 Pan/Parapan American Games on a straight line basis in advance of IO's revenue recognition milestones.

OFA Revolving Credit Facility

The Ontario Financing Authority (OFA) revolving credit facility funds the cash flow requirements of the Alternative Financing and Procurement (AFP) program. At March 31, 2012, the outstanding balance on the OFA revolving credit facility was $83.0 million, a net decrease of $40.0 million from March 31, 2011. Infrastructure Ontario repaid loan principal of $40.0 million and interest of $2.95 million in the year.

Infrastructure Ontario enacted new borrowing by-laws in fiscal 2011/12, which were approved by the Minister, both effective June 6, 2011.

By-law 3M extends Infrastructure Ontario's authorization to borrow funds under a revolving credit facility with Ontario Financing Authority (OFA) for the purpose of interim funding to provide working capital for costs incurred on Alternative Financing and Procurement projects by Major Projects until June 29, 2016 and extended the mandatory repayment date to June 29, 2019. Subsequently, Infrastructure Ontario and OFA entered into an amending agreement extending the date to which Infrastructure Ontario may borrow funds until June 29, 2016 and extending the mandatory repayment date to June 29, 2019.

By-law 3L increased Infrastructure Ontario's authority to borrow money by $500 million from $1 billion to $1.5 billion, by way of issuing and selling bonds and other financial instruments and/or entering into loan agreements. The by-law authorized that funds may be borrowed within 18 months of the date the by-law was approved and that the mandatory repayment date for the funds is 42 years from the approval date of the by-law. The approval date of the bylaw is August 16, 2011.

Deferred Project Costs

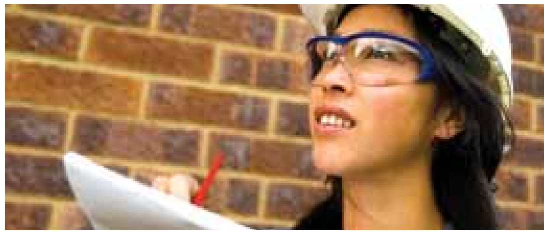
Certain project costs incurred during the start up phase of projects are deferred until either revenue is recognized or the project is cancelled, at which time they are expensed. Deferred project costs include project costs incurred during the procurement and pre-construction phases of Major Projects and costs incurred by Corporate Development during the due diligence phase of its projects.

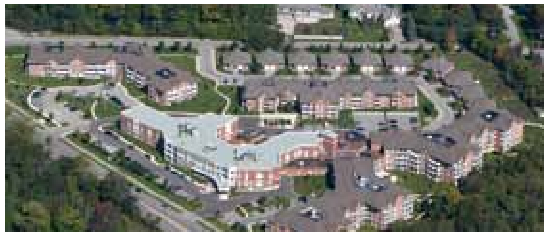
Deferred Project Costs decreased 35.0% in the year ended March 31, 2012, from $25.7 million at March 31, 2011 to $16.6 million. The decrease results from expensing deferred costs related to the nine projects in Major Projects that reached financial close in the year ended March 31, 2012 and expensing the deferred costs for projects that have been cancelled or otherwise are not proceeding to Stage 2, offset by the deferred costs incurred by Corporate Development.

Ontario Infrastructure and Lands Corporation
(Infrastructure Ontario)

Financial Statements

For the year ended March 31, 2012 and 2011





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 (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA 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 BDO Canada 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,

D. Anthony Ross
Chair and Chief Executive Officer

Dale M. Lawr
Chief Administrative Officer

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Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Directors of Ontario Infrastructure and Lands Corporation

We have audited the accompanying financial statements of Ontario Infrastructure and Lands Corporation, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
June 21, 2012

STATEMENT OF FINANCIAL POSITION

As at March 31, 2012 and 2011
(in thousands of dollars)

	March 31 2012	March 31 2011 Restated Note 22
Financial assets		
Cash and cash equivalents (Note 3)	$ 605,127	$ 835,474
Accounts receivable (Note 4)	72,777	72,761
Prepaid expenses	-	905
Interest receivable	47,593	37,304
Loans receivables (Note 5)	3,674,971	2,966,816
Projects receivables (Note 6)	125,427	94,783
Long-term investments (Note 7)	335,230	209,357
	4,861,125	4,217,400
Liabilities		
Accounts payable	13,543	15,565
Accrued liabilities	16,545	11,905
Interest payable	44,030	36,014
Deferred revenue	19,098	13,880
Provision for restructuring costs (Note 21)	1,323	6,288
OFA revolving credit facility (Note 8)	83,000	123,000
Debt – loan program (Note 9)	4,612,665	3,981,421
	4,790,204	4,188,073
Net financial assets	70,921	29,327
Non-financial assets		
Tangible capital assets (Note 10)	6,286	7,761
Deferred project costs (Note 11)	16,582	25,676
Deferred (revenue) costs on hedging	(5,812)	8,484
	17,056	41,921
Accumulated surplus	$ 87,977	$ 71,248
Contingencies (Note 16)		
Commitments (Note 17)		

See accompanying notes

Approved

D. Anthony Ross
Chair

John Swinden
Director, Chair Audit Committee

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

As at March 31, 2012 and 2011
(in thousands of dollars)

	March 31 2012	March 31 2011 Restated Note 22
Revenue		
Loan interest	$ 121,043	$ 96,210
Investment income	20,143	16,218
Project delivery fees	64,700	65,652
Management fees	18,558	20,745
Recoverable costs	47,435	40,841
Funding appropriation	22,544	27,811
Other income	35	316
	294,458	267,793
Operating expenses		
Salaries and benefits	51,766	57,149
Communications	350	1,163
Information technology	4,750	5,845
Office and administration	2,297	3,430
Premises	4,749	4,212
Professional and consulting services	4,805	10,420
Depreciation and amortization	1,982	2,770
	70,699	84,989
Project delivery expenses		
Transaction costs	28,924	15,648
Ancillary costs	41,853	28,642
Interest on OFA credit facility	2,952	3,032
	73,729	47,322
Loan program expenses		
Loan valuation allowance	3,353	2,190
Interest expense on debt (Note 12)	128,337	100,529
Amortization – Hedge loss and debt issue costs	1,560	2,393
	133,250	105,112
Corporate development (recovery)	(818)	-
	(818)	-
Restructuring revenue (expenses)		
Loan remission revenue	-	200,319
Corporate restructuring expenses	(869)	(7,139)
	(869)	193,180
Surplus	16,729	223,550
Accumulated surplus (deficit), beginning of year as previously reported	74,428	(151,204)
Prior period adjustment (Note 22)	(3,180)	(1,098)
Accumulated surplus (deficit), beginning of year restated	71,248	(152,302)
Accumulated surplus, end of year	$ 87,977	$ 71,248

See accompanying notes

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

As at March 31, 2012 and 2011

(in thousands of dollars)

	March 31 2012	March 31 2011 Restated Note 22
Surplus	$ 16,729	$ 223,550
(Acquisition)/disposal of tangible capital assets	(507)	321
Amortization of tangible capital assets	1,982	2,770
	1,475	3,091
Net deferred project and hedging costs	23,390	(4,397)
Net change in net financial assets	41,594	222,244
Net financial assets (debt) at beginning of year	29,327	(192,917)
Net financial assets at end of year	$ 70,921	$ 29,327

See accompanying notes

STATEMENT OF CASH FLOWS

As at March 31, 2012 and 2011
(in thousands of dollars)

	March 31 2012	March 31 2011 Restated Note 22
Operating transactions		
Net surplus	$ 16,729	$ 223,550
Items not requiring a current cash outlay:		
Loan remission revenue	-	(200,319)
Amortization of deferred concession costs	(10,856)	(11,689)
Other amortization	3,542	5,163
	9,415	16,705
Changes in non-cash working capital items:		
Increase in accounts and interest receivables and prepaid expenses	(9,400)	(47,788)
Increase in accounts and interest payables and deferred revenue	10,887	26,516
Increase in projects receivables and deferred project costs	(21,550)	(26,754)
Cash applied to operating transactions	(10,648)	(31,321)
Capital transactions		
Net (acquisition) disposal of tangible capital assets	(507)	321
Cash (applied to) provided by capital transactions	(507)	321
Investing transactions		
Net increase in loans receivable	(697,299)	(737,684)
Cash applied to investing transactions	(697,299)	(737,684)
Financing transactions		
Repayment of OFA revolving credit facility	(40,000)	-
Net debt issues	643,980	816,658
Net change in long term investments	(125,873)	33,838
Cash provided by financing transactions	478,107	850,496
Net (decrease) increase in cash and cash equivalents	(230,347)	81,812
Cash and cash equivalents, beginning of the year	835,474	753,662
Cash and cash equivalents, end of the year	$ 605,127	$ 835,474

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

NATURE OF THE CORPORATION

On June 6, 2011 pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011, Ontario Infrastructure Projects Corporation (OIPC), Ontario Realty Corporation (ORC) and Stadium Corporation of Ontario Limited (STADCO) were amalgamated and continued as a corporation without share capital under the name of Ontario Infrastructure and Lands Corporation (Infrastructure Ontario/Agency). Infrastructure Ontario is a Crown Corporation reporting to the Minister of Infrastructure and is classified by the Province of Ontario (Province) as an operational enterprise.

OIPC and ORC were under the common control of the Ministry of Infrastructure (MOI) prior to the amalgamation and provided advice and services, including property management, project management, contract management and development, related to public works. STADCO was under the control of the Ministry of Finance and held the Province of Ontario's interest in certain land leases under and adjacent to the Rogers Stadium and owned a parking lot adjacent to the Rogers Stadium. STADCO's assets, including its interest in the land leases and the parking lot, liabilities and operations were transferred to the MOI General Real Estate Portfolio prior to the amalgamation.

The mandate of Infrastructure Ontario includes the following:

- To provide financing for infrastructure purposes to municipalities and to eligible public organizations;
- To provide the Government with advice and services, including project management, contract management and development, related to public works;
- To provide financial management for public works managed by the Ministry or by a Crown agency for which the Minister is responsible;
- To carry out the powers, duties and functions delegated by the Minister to the Corporation under the Ministry of Infrastructure Act, 2011;
- To provide advice and services related to real property to public sector organizations when directed to do so in writing by the Minister;
- To advise the Minister on infrastructure projects in Ontario, when directed to do so in writing by the Minister;
- To advise the Minister 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;
- To provide 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; and
- To undertake any additional objects as directed by the Minister of Infrastructure.

The Agency manages 47.0 million rentable square feet: 35.9 million owned by the Province and 11.1 million leased from the private sector, as well as 97,123 acres of land owned by the Province (General Real Estate Portfolio).

As a Crown corporation, Infrastructure Ontario is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada. Infrastructure Ontario has been added to Schedule A of the Canada Ontario Reciprocal Taxation Agreement and is exempt from the Goods and Services Tax. As of July 1, 2010, Infrastructure Ontario is subject to Harmonized Sales Tax (HST).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements are prepared in accordance with accounting policies and standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The financial statements have been prepared based on the continuity of interests' principle with respect to OIPC and ORC which requires the continuing entity, Infrastructure Ontario, to report the current and comparative financial statements as if the two entities had been combined since inception. OIPC and ORC had complementary operating mandates prior to the amalgamation, which are being continued by Infrastructure Ontario. All assets and liabilities were transferred to Infrastructure Ontario.

Since STADCO divested itself of its assets, liabilities and operations to MOI prior to amalgamation and brought no assets, liabilities or operations into the amalgamated agency, STADO is accounted for using the purchase method of accounting, with no purchase price paid, no assets acquired and no liabilities assumed.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

Accordingly, the current and comparative year financial statements include the entire year of operations for Infrastructure Ontario, OIPC and ORC, but not STADCO, after adjusting for any amounts owing among the entities.

Management estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

Key areas where management has made estimates are in the percentage of completion on project revenues and costs and the loan portfolio valuation allowance. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and highly liquid investments with a term to maturity of three months or less.

Loans receivables

Loans receivables are stated at their estimated net realizable value.

Loans with concessionary terms are discounted using Infrastructure Ontario's cost of borrowing to determine the present value of the loan. The difference between the face value of the loan and its present value is, in substance, a grant. Only the 2003-04 program loans were issued with concessionary terms. Loans with concessionary terms are recorded at face value discounted by the amount of the grant portion. 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.

Loan portfolio valuation allowance

The loan portfolio valuation allowance is maintained at a level that Infrastructure Ontario considers adequate to absorb valuation adjustments and losses on loans. The valuation allowance consists of a general allowance which is reviewed on a regular basis.

The valuation allowance is established against the loan portfolio where prudent assessment by Infrastructure Ontario of existing economic, industry and portfolio conditions indicate that valuation may be impaired or losses occur. The valuation allowance is underpinned by a risk rating process 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 number of factors are considered when determining the appropriate level of the valuation allowance, including sensitivity to risk ratings, industry sectors, portfolio quality, business mix, and economic and credit market conditions.

Tangible capital assets

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

Computer hardware and equipment	3 years
Furniture, fixtures and office equipment	3–10 years
Leasehold improvements	5–10 years

Impairment of assets

The Agency reviews the carrying value of long-lived assets for potential impairment when there is evidence that events or changes in circumstances exist that indicate the carrying value might not be recoverable. The recoverability of long-lived assets is determined by evaluating whether the carrying value of such assets can be recovered from estimated undiscounted future operating cash flows. When an asset is impaired, according to the foregoing test, an impairment loss is measured and recognized as the excess of the carrying value of the asset over its fair value. No such impairment losses have been incurred to date.

Deferred project costs

Deferred project costs represent direct and overhead costs attributable to projects that have not yet reached the construction phase. The pre-construction costs include legal advisors, technical advisors, staff costs and administrative overhead and interest.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

Revenue recognition

Loan interest

Interest on investments and loans receivables are recognized using the effective interest rate method.

Project delivery fees

Infrastructure Ontario provides professional services under either cost based or fixed price contracts. For cost based contracts, revenue is recorded as costs are incurred. Revenue from fixed price contracts is recorded using the percentage-of-completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs for projects that have reached the construction phase. Losses, if any, on fixed price contracts are recognized during the period they are identified.

Revenue relating to reimbursable costs for fixed price contracts are recorded when the projects reach the construction phase.

Management fees

Management fees are recognized as revenue when services are provided.

Recoverable costs

Recoverable costs are recognized as revenue when the related expenses are incurred.

Funding appropriation

Infrastructure Ontario receives funding from the Ministry of Infrastructure (MOI) in relation to in-year corporate expenses. The funding is recorded as unearned revenue until the corporate expenses have been incurred. Once the corporate expenses are incurred, the funding is recognized as revenue.

Rent expense

Rental expense is recorded based on terms in the lease agreements.

Accounting for derivatives

Infrastructure Ontario is exposed to interest rate fluctuations during the period between the issuance of long term debt and providing financing to public bodies. To manage this interest rate risk, Infrastructure Ontario utilizes financial instruments with characteristics similar to a hedge. Infrastructure Ontario purchases Province of Ontario bonds with terms similar to its long term debt. Infrastructure Ontario has formally documented its risk management objective and strategy, including relationships between the hedging instrument and the hedged item.

The hedging instruments are classified under long-term investments. Gains and losses resulting from hedging activities are deferred and amortized to operations on a straight line basis over the term of the underlying debt, with maturities ranging from August 2012 to June 2041.

Infrastructure Ontario has chosen not to adopt hedge accounting for its interest rate swaps as described in note 2.

2. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

Infrastructure Ontario employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives"). Infrastructure Ontario does not use derivatives for speculative purposes.

Derivatives are financial contracts, the value of which is derived from underlying instruments. Infrastructure Ontario, being borrower and lender, uses derivatives to create cash flow hedges for instruments with differing maturity dates. The hedges are created 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. Swaps allow Infrastructure Ontario to offset its existing loan receivables and debt obligations and thereby effectively convert them into instruments with more desirable characteristics. Infrastructure Ontario has swapped certain of its fixed rate loan receivables and fixed rate debt portfolio into floating rate instruments. Swap interest charges are netted against Loan Program revenue.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

All swap transactions have been completed with the Ontario Financing Authority (OFA) as the contracting party. The OFA has the option at certain dates within the swap period to reset an individual swap and a cash settlement or receipt may result, however the resetting does not affect the effectiveness of the swap transaction. The OFA, as intermediary, has entered into concurrent contracts with third party financial institutions under the same terms and bears the credit risk of the swap transactions.

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2012, 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 Balance Sheet. 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	Within 1 Year	2 to 5 Years	6 to 10 Years	11 to 15 Years	Over 15 Years	Total Notional Value
($,000,000)						
Debt	-	1,311	653	87	607	2,658
Loans receivables	197	775	899	684	648	3,203

3. *CASH AND CASH EQUIVALENTS*

($,000)	March 31, 2012	March 31, 2011
Cash	$ 8,889	$ 50,778
Short term investments	596,238	784,696
	$ 605,127	$ 835,474

Short term investments include money market investments recorded at cost, which approximate market value. At March 31, 2012 the interest rates on these investments ranged from 0.99% to 1.24% (2011 - 0.95% to 1.36%).

4. *ACCOUNTS RECEIVABLE*

($,000)	March 31, 2012	March 31, 2011
Trade accounts receivable	$ 879	$ 6,182
HST/GST	4,153	4,984
MOI grant	-	5,265
MCSCS recoveries – OPP Modernization	3,633	-
MOI recoveries – Pan/Parapan American Games	-	17,090
Project recoveries	63,826	39,012
Other receivables	286	228
	$ 72,777	$ 72,761

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

5. *LOANS RECEIVABLE*

($,000)	March 31, 2012		March 31, 2011	
Construction advances				
Infrastructure renewal loan program	$ 520,342		$ 460,325	
Total	520,342		460,325	
Debentures receivables		Interest %		Interest %
Concessionary loan program				
Maturity within 5 years	-		280	1.87-2.31
6 to 10 years	118,233	2.06-2.71	143,347	2.06-2.71
11 to 15 years	52,632	2.28-2.67	57,875	2.28-2.67
16 to 20 years	349,383	2.36-2.95	371,530	2.36-2.95
Greater than 20 years	72,521	2.08-3.05	75,058	2.52-3.05
	592,769		648,090	
Infrastructure renewal loan program				
Maturity within 5 years	-		46,821	1.48-5.07
6 to 10 years	335,437	2.56-5.20	272,151	2.91-5.20
11 to 15 years	467,538	3.11-5.37	304,355	3.71-5.37
16 to 20 years	849,264	3.41-5.89	620,329	3.81-5.89
Greater than 20 years	1,001,331	1.87-5.91	715,801	3.97-5.91
	2,653,570		1,959,457	
Total	3,246,339		2,607,547	
Deferred costs on concessionary loans				
Deferred costs on concessionary loans, beginning of year	(98,866)		(110,555)	
Amortization concession costs	10,856		11,689	
Deferred costs on concessionary loans, end of year	(88,010)		(98,866)	
Loan valuation allowance	(3,700)		(2,190)	
Loans receivables	$ 3,674,971		$ 2,966,816	

Construction advances are receivable from municipalities, universities, and other public bodies. The interest rate on these construction loans, is one half of the average of Prime and 30 day Bankers' Acceptances on the concessionary loan program and 30 day Bankers' Acceptances plus ten basis points on the infrastructure renewal loan program.

Debentures receivables are due from municipalities, universities and other public bodies, with terms ranging from 5 to 40 years.

Infrastructure Ontario has mitigated its credit risk with the current loan portfolio. The Agency has an intercept mechanism with the Province which allows for funds owing to a borrower that receives funding from the Province to be redirected to Infrastructure Ontario. Loans to non-government borrowers are subject to restrictive covenants on assets and the borrower may be required to provide security agreements and loan insurance.

At March 31, 2012 management reviewed its portfolio of loans and determined it prudent to increase the loan valuation allowance against the portfolio.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

6. *PROJECTS RECEIVABLES*

Projects receivables are expense recoveries, recognized either when the expenses occurred or on a percentage-of-completion method. Certain projects receivables, including interest costs to finance the receivables, will not be billed until the completion of the project. Projects receivables are due from various Ontario Ministries.

7. *LONG-TERM INVESTMENTS*

Long-term investments consist of bonds utilized as hedging instruments as described in Note 1, which are carried at cost. At March 31, 2012 the interest rates on these investments ranged from 1.90% to 5.20% (2011 - 3.00% to 5.75%) and maturities from August 2012 to June 2041.

8. *OFA REVOLVING CREDIT FACILITY*

The Ontario Financing Authority (OFA), an agency of the Province of Ontario, provides Infrastructure Ontario with a subordinated revolving credit facility of up to $200 million to provide working capital for the Project Delivery Program. Advances are to be repaid upon completion of individual AFP projects. At March 31, 2012, Infrastructure Ontario had drawn $83 million (2011 - $123 million) on the line of credit, with interest at the Province's cost of funds for borrowings with a similar term. Interest charges range from 1.98% to 2.64% (2011 – 1.98% to 4.00%), with maturities from December 2012 to April 2014.

Infrastructure Ontario enacted a new borrowing by-law effective June 6, 2011 extending the Agency's authorization to borrow funds until June 29, 2016 and extending the mandatory repayment date for all borrowings to June 29, 2019. Subsequently, Infrastructure Ontario and OFA entered into an amending agreement extending the date to which Infrastructure Ontario may borrow funds until June 29, 2016 and extending the mandatory repayment date to June 29, 2019.

9. *DEBT – LOAN PROGRAM*

($,000)	March 31, 2012	March 31, 2011
Commercial paper	$ 604,149	$ 739,114
Infrastructure renewal bonds	1,250,000	1,250,000
OIPC bonds	1,635,000	1,050,000
Province of Ontario loan	799,681	799,681
Ontario Clean Water Agency loan	120,000	120,000
Ontario Immigrant Investor Corporation loans	213,257	31,110
	4,622,087	3,989,905
Debt issue costs	(9,422)	(8,484)
	$ 4,612,665	$ 3,981,421

Commercial Paper

Infrastructure Ontario issues notes under a commercial paper program. The funds are used for short-term funding requirements including cash management, financing assets and general operating requirements. The program is authorized to issue a maximum of $750 million for terms of up to one year. During the year, interest on the notes ranged from 1.03% to 1.18% (2011 – 1.09% to 1.17%). As of March 31, 2012, maturities ranged from April 2012 to June 2012.

Infrastructure Renewal Bonds

Infrastructure Ontario assumed $650 million of Infrastructure Renewal Bonds, on the date of amalgamation with OSIFA. The bonds bear interest at 4.60% per annum and mature on June 1, 2015.

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.

On August 26, 2008, Infrastructure Ontario issued $300 million of Infrastructure Renewal Bonds. The bonds bear interest at 3.95% per annum and mature on June 3, 2013.

OIPC Bonds

Infrastructure Ontario issues bonds to the Province of Ontario for the purpose of funding its loan program. The bonds are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario. The bonds bear interest from 2.02% to 4.96% (2011 – 2.75% to 4.96%) per annum and maturities range from September 2014 to June 2041. Interest is paid semi-annually on these bonds until maturity.

Province of Ontario Loan

The Province of Ontario provides Infrastructure Ontario with a fifty-year subordinated loan of approximately $800 million in exchange for a promissory note which 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. March 31, 2012 interest on the note was reset at 0.99% (2011 - 1.01%).

Ontario Clean Water Agency Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province of Ontario, provides a twenty-year subordinated loan of $120 million to Infrastructure Ontario in exchange for a promissory note which matures on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the average one month Canadian Dollar Offered Rate, payable quarterly. March 31, 2012 interest on the note was reset at 1.16% (2011 - 1.20%).

The Province of Ontario and OCWA loans provide: (i) credit protection to investors in unsubordinated debt such as Infrastructure Renewal Bonds and Commercial Paper (ii) a liquidity backstop for Infrastructure Ontario's financing needs; and (iii) a stable long-term capital base that enables Infrastructure Ontario to achieve a high credit rating.

Ontario Immigrant Investor Corporation Loans

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province of Ontario, provides five-year subordinated loans. The loans are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario. The loans bear interest from 1.55% to 3.05% (2011 – 2.99% - 3.01%) per annum and maturities range from January 2016 to February 2017. Interest is paid semi-annually on these loans until maturity.

Debt issue costs

Debt issue costs incurred on the sale of Infrastructure Renewal Bonds & Ontario Infrastructure Projects Corporation (OIPC) Bonds are netted against the related debt and are being amortized on a straight line basis over the life of the bond issues using the effective interest method.

10. *TANGIBLE CAPITAL ASSETS*

($,000)	Cost	Accumulated Amortization	Net March 31, 2012	Net March 31, 2011
Computer equipment	$ 17,028	16,108	920	$ 1,567
Furniture and fixtures	1,984	1,577	407	525
Leasehold improvements	9,828	4,869	4959	5,669
	$ 28,840	22,554	6,286	$ 7,761

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

11. DEFERRED PROJECT COSTS

Deferred project costs represent the accumulation of project expenses incurred for projects that have not yet reached the construction phase. Once the project reaches the milestone, revenue and its related expense will be recognized in that fiscal year. Deferred project costs also include costs incurred by corporate development during the due diligence phase of its projects for recovery at completion.

12. INTEREST EXPENSE ON DEBT

($,000)	March 31, 2012	March 31, 2011
Commercial Paper	$ 7,415	$ 5,777
Infrastructure Renewal Bonds	56,160	55,850
OIPC Bonds	52,149	31,915
Province of Ontario loan	8,157	5,811
Ontario Clean Water Agency loan	1,401	1,075
Ontario Immigrant Investor Corporation loans	3,055	101
	$ 128,337	$ 100,529

13. RELATED PARTY TRANSACTIONS

The Agency is economically dependent on the Province as 52% of its revenue for the year ended March 31, 2012 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 Children and Youth Services, the Ministry of Government Services, the Ministry of Community Safety and Correctional Services, and the Ministry of Transportation, in addition to MOI.

The Corporation's prime sources of revenue from the Province are:

1. Project delivery fees
   Market-based fees based on a percentage of project costs are charged for services, including project management, contract management and development related to public works, provided to various Ministries.

2. Management fees
   Market-based fees based on a percentage of project costs are charged for services, including property and project management, provided to the General Real Estate Portfolio for MOI.

3. Recoverable costs
   Certain projects and services are provided to MOI and other Ministries on a cost recovery basis.

4. Funding appropriation
   Infrastructure Ontario receives funding from MOI to cover corporate expenses.

Infrastructure Ontario has interest bearing loans from the OCWA, the Province of Ontario, OIIC and the OFA (Notes 9 and 12).

Infrastructure Ontario has incurred costs for services of the OFA of $0.92 million (2011 - $1.1 million).

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

14. FUTURE EMPLOYEE BENEFITS

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 of Ontario. The cost of the pension plan of $0.54 million (2011 - $0.71 million) is based on formulas set by the Ontario Pension Board and has been expensed. In addition, for these employees the cost of post-retirement, non-pension employee benefits is paid by the Ministry of Government Services and is not included in the financial statements.

The Agency provides a defined contribution pension plan for all other full-time employees. For the year ended March 31, 2012, two defined contribution pension plans were in place: one for the employees of the each of the predecessor entities OIPC and ORC, with new employees joining the OIPC plan. Each plan has different employee and Agency contributions. The Agency merged the defined contribution pension plans on April 1, 2012.

The cost of this plan for the year ended March 31, 2012 was $1.97 million (2011 - $2.02 million).

15. FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and interest payable approximate their fair values because of the short-term maturity of these instruments.

The Agency earns interest on loans receivable, short and long-term investments and pays interest on short and long-term debt. To the extent that these financial instruments mature or reprice at different points in time, the Infrastructure Ontario is exposed to interest rate risk. Management actively manages the maturities of these financial assets and liabilities to mitigate this risk including utilizing interest rate swap arrangements as detailed in note 2.

16. CONTINGENCIES

Infrastructure Ontario, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2012, Infrastructure Ontario was not aware of any such proceedings in process.

17. COMMITMENTS

Loan Program

($,000) Program year	Approved Financing	Funds Advanced
2004 - 2005	$ 582,000	$ 466,000
2005 - 2006	319,000	261,000
2006 - 2007	49,000	40,000
2007 - 2008	434,000	393,000
2008 - 2009	648,000	595,000
2009 - 2010	1,035,000	857,000
2010 - 2011	962,000	523,000
2011 - 2012	826,000	501,000
	$ 4,855,000	$ 3,636,000

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

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

($,000)		
Fiscal year		Amount
2012 - 2013	$	2,371
2013 - 2014		2,334
2014 - 2015		2,366
2015 - 2016		2,007
2016 - 2017		1,799
Thereafter		1,138
	$	12,015

18. *FUNDS HELD IN TRUST*

Infrastructure Ontario maintains several operating bank accounts and one short-term investment account, which it holds in trust and administers on behalf of MOI. The accounts relate directly to the operations of the MOI 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 MOI at March 31, 2012 are $166.2 million (2011 - $115.4 million).
Infrastructure Ontario is required by the Canadian Mortgage of Housing Corporation (CMHC) to collect property taxes and reserve funds as a condition of providing affordable housing loans. As part of the CHMC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. At March 31, 2012 the funds under administration are $0.66 million (2011 - $0.03 million).

Infrastructure Ontario administers funds as an agent of the Ministry of Children and Youth Services relating to the Roy McMurtry Youth Centre project. Infrastructure Ontario acts as trustee for this account as specified in the agreement. The funds are enabled Infrastructure Ontario to make the final construction payment to the construction consortium on behalf of the ministry. At March 31, 2012, the funds under administration are $0.63 million (2011 - $0.60 million), which represents the balance of the holdback on the payment to the construction consortium.

At March 31, 2011, Infrastructure Ontario held $50 million as an agent of the Ministry of Community Safety and Correctional Services relating to the Toronto South Detention Centre project. In April 2011, these funds were paid to the construction consortium on behalf of the ministry. As of March 31, 2012, the funds under administration are $nil (2011 - $50 million).

Trust funds under administration are excluded from the financial statements of the Agency.

19. *ECONOMIC DEPENDENCE*

As disclosed in Note 13, Infrastructure Ontario is economically dependent on the Province of Ontario as the majority of revenue is from services provided to various Ministries of the Province.

Based on the Province's support in providing a multi-year commitment for public infrastructure projects and providing a fifty-year loan, Infrastructure Ontario is considered a going concern.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

20. SEGMENTED INFORMATION

Infrastructure Ontario's reporting structure reflects how the business is managed and how operations are classified for planning and measuring performance. The table below is a summary of financial information by segment:

						Year ended March 31, 2012
($,000)	Major Projects	Lending	Real Estate Management	Ontario Lands	Corporate Development	Total
Revenues						
Loan interest	$ -	$ 121,043	$ -	$ -	$ -	$ 121,043
Investment income	-	20,143	-	-	-	20,143
Project delivery fees	64,700	-	-	-	-	64,700
Management fees	-	-	18,558	-	-	18,558
Recoverable costs	41,853	100	3,896	1,586	-	47,435
Funding appropriation	-	-	9,144	13,400	-	22,544
Other income	35	-	-	-	-	35
	106,588	141,286	31,598	14,986	-	294,458
Expenses						
Salaries and benefits	19,232	3,829	22,043	6,074	588	51,766
General and administration	6,777	2,577	7,499	1,850	230	18,933
Program expenses (recovery)	73,729	133,250	-	-	(818)	206,161
	99,738	139,656	29,542	7,924	-	276,860
Restructuring - Loan remission revenue	-	-	-	-	-	-
Operating Surplus (Loss)	6,850	1,630	2,056	7,062	-	17,598
Corporate restructuring expenses	-	-	-	-	-	869
Surplus	-	-	-	-	-	16,729

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

						Year ended March 31, 2011 Restated Note 22
($,000)	Major Projects	Lending	Real Estate Management	Ontario Lands	Corporate Development	Total
Revenues						
Loan interest	$ -	$ 96,210	$ -	$ -	$ -	$ 96,210
Investment income	-	16,218	-	-	-	16,218
Project delivery fees	65,652	-	-	-	-	65,652
Management fees	-	-	20,745	-	-	20,745
Recoverable costs	28,642	-	10,516	1,683	-	40,841
Funding appropriation	4,739	527	9,145	13,400	-	27,811
Other income	-	-	237	79	-	316
	99,033	112,955	40,643	15,162	-	267,793
Expenses						
Salaries and benefits	18,553	3,061	26,873	8,662	-	57,149
General and administration	8,439	2,736	13,910	2,755	-	27,840
Program expenses (recovery)	47,322	105,112	-	-	-	152,434
	74,314	110,909	40,783	11,417	-	237,423
Restructuring - Loan remission revenue	-	200,319	-	-	-	200,319
Operating Surplus (Loss)	24,719	202,365	(140)	3,745	-	230,689
Corporate restructuring expenses	-	-	-	-	-	7,139
Surplus	-	-	-	-	-	223,550

21. *RESTRUCTURING EXPENSES*

Debt Restructuring

On July 28, 2010, Infrastructure Ontario was granted a remission of $200 million on the Province of Ontario loan, which reduced Infrastructure Ontario's obligation on the loan from $1 billion to approximately $800 million. The remission was recorded as revenue and a reduction in the Province of Ontario Loan.

Corporate Restructuring

As discussed in Note 1, OIPC, ORC and STADCO amalgamated effective June 6, 2011, continuing as Ontario Infrastructure and Lands Corporation.

Infrastructure Ontario recognized $7.1 million in costs related to the merger as at March 31, 2011, including severance costs of $6.4 million and leasehold write offs of $0.7 million.

Infrastructure Ontario incurred additional restructuring expenses during the year related to the integration of the predecessor agencies in the amount of $0.87 million.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

($,000)	March 31, 2012 Corporate Restructuring	March 31, 2012 Regional Property Management Restructuring	March 31, 2012 Total	March 31, 2011 Corporate Restructuring	March 31, 2011 Regional Property Management Restructuring	March 31, 2011 Total
Balance beginning of year	$ 6,241	$ 47	$ 6,288	$ -	$ 920	$ 920
Increase (Decrease) in provision	-	(1)	(1)	7,102	37	7,139
Leasehold write offs	-	-	-	(748)	-	(748)
Severance payments	(4,918)	(46)	(4,964)	(113)	(910)	(1,023)
Balance end of year	$ 1,323	$ -	$ 1,323	$ 6,241	$ 47	$ 6,288

22. *PRIOR PERIOD ADJUSTMENT*

During the year, management determined that the amortization of premiums related to long-term bonds purchased in 2009 and 2010 had not been accurately reflected in the financial statements. The correction has been accounted for retroactively and has the following effect on the comparative financial statements:

	March 31, 2012	March 31, 2011
Increase in amortization – hedge loss and debt issue costs	$ -	$ 2,082
Decrease in accumulated surplus	3,180	1,098
Decrease in long term investments	-	3,180

23. *SUBSEQUENT EVENTS*

Issuance of Debt

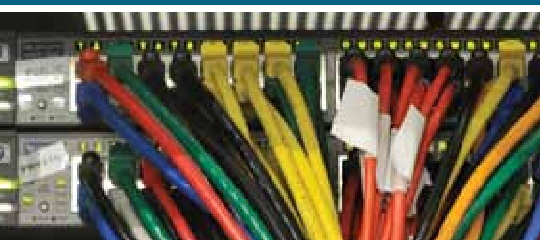
Subsequent to March 31, 2012, Ontario Immigrant Investor Corporation provided four 5-year subordinated loan totaling $25 million. The loans bear interest from 1.55% to 2.33% per annum and maturities range from March 27, 2017 to April 24, 2017. Infrastructure Ontario also issued one OILC bond to the Province of Ontario in the amount of $50 million for the purpose of funding its loan program. The bond bears interest of 3.18% per annum and matures on June 2, 2022. Interest is paid semi-annually on the bond until maturity.

24. *COMPARATIVE FIGURES*

The comparative figures have been reclassified to reflect the current presentation.

Ontario

Infrastructure Ontario



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