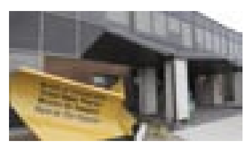
Ontario Realty Corporation
Société immobilière de l'Ontario

BUILDING EXCELLENCE | DELIVERING VALUE



ANNUAL REPORT 09/10

TABLE OF CONTENTS

LETTER FROM THE CHAIR

I am proud of the work Ontario Realty Corporation has done to enhance its governance, transform its business model and strengthen its ideals of building excellence and delivering value for our customers.

In the past year, ORC has successfully completed the 2007–2010 Strategic Plan, marking a significant transformation in how we do business. In close alignment with the government's agenda, we have embraced sustainability and readied the organization for implementation of the *Green Energy Act*. We have partnered with our customers to lay the groundwork for significant real estate and infrastructure developments, including the Seaton Lands, Keele-Wilson Provincial Campus, West Don Lands and consolidated courthouses across the province.

As the Government of Ontario has adapted to meet fiscal constraints, the Board of Directors has taken active steps to ensure that ORC complies with the new directives from Management Board of Cabinet regarding procurement and expense procedures. Our continuing commitment to accountability and good governance can be seen in the approval of a succession plan this past year, as well as the completion of Board assessments and conflict of interest reports.

I would like to express my sincere gratitude to the Board members for their steadfast commitment to ORC and their contributions to the ongoing strengthening of the organization. I would also like to thank David Glass and the ORC team for their skill, hard work and dedication to service. Finally, I want to thank Ministers Smitherman and Phillips for their leadership and support and welcome Minister Duguid. We look forward to working closely with the Ministry of Energy and Infrastructure as we launch the next three years of our strategic plan.

I anticipate that the coming year will be challenging and rewarding as ORC and its staff continue to provide the strategic advice and professional real estate management skills the government and our customers expect.

Sincerely,

Carol Gray, MBA, ICD.D
Chairperson

BOARD AND GOVERNANCE

Ontario Realty Corporation (ORC) is an Operational Enterprise Agency of the Government of Ontario, created by statute, specifically the *Capital Investment Plan Act, 1993* (CIPA), and directed by the government's Agency Establishment and Accountability Directive.

ORC is governed by its Board of Directors and is accountable to the Minister of Energy and Infrastructure. A memorandum of understanding (MOU) dated April 5, 2007 between government and ORC further clarifies the expectations outlined in CIPA, the relationship between the Minister and ORC, and the roles and responsibilities of the Minister, Board of Directors, Chair of the Board, and President and CEO.

Board Members from left to right:
David B. Conn
Mitchell Kowalski
Ron McNeill
Carol Gray, Chair
Judith Wright
Gail Kilgour, Vice-Chair
Mitchell Abrahams
Karen Weaver

ROLE OF THE BOARD

The Board is ORC's governing body and is responsible for approving strategic directions and directing the overall management of the organization's affairs. Board members are paid a per diem in accordance with the Management Board of Cabinet (MBC) directive on government appointees. The aggregate remuneration for members of the Board for 2009–10 was $43,140.

BOARD MEMBER TERMS OF APPOINTMENTS (AS AT APRIL 1, 2010)

Name of Director	Date of Appointment	Current Term	Date of Term Expiry
Carol Gray Chair/Director	December 31, 2007	3 years	December 30, 2010
Gail Kilgour Vice-Chair	January 13, 2010	19 months	August 23, 2011
Mitchell Abrahams	August 24, 2009	2 years	August 23, 2011
David B. Conn	November 17, 2007	3 years	November 16, 2010
Mitchell Kowalski	January 15, 2010	3 years	January 14, 2013
Ron McNeill	December 2, 2009	1 year	December 1, 2010
Karen Weaver	January 15, 2010	3 years	January 14, 2013
Judith Wright	March 4, 2009	2 years	March 3, 2011

BOARD MEETINGS

Board meetings – regularly scheduled	9
Board meetings – special	1
Total	10

COMMITTEE MEETINGS

Audit Committee meetings	7
Business Operations Committee meetings	9
Governance Committee meetings	6
Human Resources Committee meetings	6
Total	28

STRENGTHENING GOVERNANCE

ORC's Board of Directors drives a commitment to strong governance throughout the organization. The Board benchmarks its governance practices against the standards set by the Canadian Coalition for Good Governance. All members of the Board are members of the Institute of Corporate Directors (ICD), and most directors have obtained or are enrolled in a corporate directors' program to obtain a formal recognized designation.

The Board has developed a succession plan coupled with periodic director competency reviews and annual performance assessments to facilitate the recruitment and retention of experienced, well-qualified professionals and to enable transfer of knowledge about the corporation. In 2009–10, the recruitment process for new directors was initiated and comprehensive Board assessments were again completed.

ENHANCED ACCOUNTABILITY

In July 2009, MBC approved a new Procurement Directive, revisions to the Procurement Directive on Advertising, Public and Media Relations and Creative Communications Services, and addenda to the Travel, Meal and Hospitality Expenses Directive. ORC immediately implemented the new directives and executed a training program for all Board and staff members. ORC adopted the revised MBC Agency Establishment and Accountability Directive in January 2010.

In 2009–10, ORC implemented entity level CEO/CFO Certification. This certification covers the design and testing of the operating effectiveness of entity level controls. The design portion evaluated ORC controls against criteria set out by the Canadian Institute of Chartered Accountants. The CEO/CFO Certification was supported by sub-certification from business leaders for 2009–10. Additionally, ORC has certified the Ontario Provincial Controller's Certificate of Assurance for 2009–10.

Finally, the Board endorsed new Delegations of Authority in 2009–10, to ensure clear accountabilities at every level within ORC. Terms of reference for each Board committee are being revised to ensure alignment with the new Delegations of Authority.

MESSAGE FROM THE PRESIDENT & CEO

I am very proud of the reputation ORC has built as a centre of excellence in public sector real estate. During the last three years we have transformed all aspects of our business, fundamentally changing the way we manage the government's real estate portfolio and how we deliver value for our customers and the Ontario government. The feedback from customers and industry representatives has been positive – reinforcing that we are moving in the right direction.

2009–10 has been a year of significant milestones. We have changed the way we manage our assets and how we provide property and land management services to the Ontario government. As of April 2010, we have transitioned all four regions of the province to our new service model, providing more effective and efficient service delivery for our customers through a partnership with CB Richard Ellis (CBRE). CBRE is already adding value by drawing on its global experience and industry leading practices.

Our industry partners are excited about the new project services business model, and we continue to work closely with our suppliers and customers to ensure that we deliver optimal value for the Ontario government.

Our commitment to sustainability has begun to permeate our business as we embrace sustainable principles in how we manage our buildings, undertake construction projects and procure suppliers. We have reduced electricity consumption in our buildings by over 17 per cent since the 2002–03 base year. This year, an additional 12 buildings received BOMA BESt certification. We are also proud of producing our first Corporate Social Responsibility (CSR) Report.

Such significant achievements are never completed by one person and it is with that in mind that I would like to express my gratitude to all ORC staff for their hard work and dedication over the past year. I would also like to extend my appreciation to our very dedicated Board members, as well as the Minister of Energy and Infrastructure and ministry staff. We look forward to working with Minister Duguid and his team.

With a new strategic plan in place, the coming year will be a productive and exciting time for ORC. Our commitment to excellence remains strong as we continue to build value for our customers and for Ontarians.

Yours truly,

David Glass
President & CEO

CORPORATE PROFILE

VISION

We are the service provider of choice and the centre of excellence in managing and enhancing value of public sector real estate.

VALUE PROPOSITION

For the public sector in Ontario, we provide sustainable real estate solutions province-wide to support government objectives and facilitate efficient and effective delivery of programs to the public.

Our unique knowledge and understanding of the public sector, together with our business model, allow us to proactively link real estate solutions to customer program objectives.

VALUES

Trustworthy, Innovative, Customer Focused, Collaborative, Respectful.

WHAT WE DO

ORC provides customer focused real estate services to the Ontario government, including strategic portfolio management, asset management, property and land management, and capital projects.

ORC manages one of the largest real estate portfolios in Canada. The portfolio includes a wide variety of properties ranging from detention centres to office space, courthouses and heritage buildings.

Three hundred and fifty employees are located throughout the province in offices in Guelph, Kingston, Ottawa, Sudbury, Thunder Bay and Toronto. ORC employees are skilled in areas such as facilities management, asset management, law, accounting, construction and geographical information management systems. Over 100 employees hold professional designations related to their field of expertise.

Executive Team, from left to right:
MaryLee Farrugia, Executive Vice President, General Counsel & Corporate Secretary
Lori Robinson, Senior Vice President, Strategic Asset Management
David Glass, President & Chief Executive Officer
Ryan Clayton, Senior Vice President, Project Services (A)
Hubert Labelle, Senior Vice President, Portfolio Management
H.R. Goss, Chief Financial Officer & Treasurer
Greg Dadd, Chief Operating Officer
Absent: **Kathy Bull**, Senior Vice President, Human Resources

CORPORATE GOALS

Overall in 2009–10, ORC achieved a total score of 93.5% of the corporate goals approved by its Board of Directors.

INITIATIVE
Business Level Satisfaction

* Within 5% of mid-year forecast
** Within 10% of mid-year forecast

INITIATIVE
Project Delivery

* Within 1.2% of total ministry program spend of January reforecast

INITIATIVE
Efficiency Index

Goal
Result

INITIATIVE	GOAL	RESULT
Commence Implementation of Action Plan 3	Develop a leasing strategy for the large lease expiry load in 2011	Leasing strategy developed and approved in February 2010
Transition to the Asset Management Service Delivery Model	Meet deliverables in the transition plan	High-level deliverables achieved: • Procurement – CBRE on board • People – new governance structure announced May 2009 • Training process – September 2009 • Information Technology – call centre implemented October 2009
Sustainability Framework	Establish sustainability benchmarks by end of November 2009 Reduce energy consumption from the 2002–03 baseline by 16%	Achieved 17.27%

INFRASTRUCTURE PROJECTS

ORC is actively collaborating with Infrastructure Ontario (IO) to implement the government's infrastructure renewal program. ORC identifies and prepares sites for construction of new buildings through the Alternative Financing and Procurement (AFP) model. These large, special-purpose projects generally have a construction value in excess of $50 million.

A prime example of the success of the AFP model is the completion in November 2009 of the Durham Consolidated Courthouse in Oshawa. ORC, which aided in the land selection and site preparation, is now overseeing facility operations on behalf of the Ministry of the Attorney General. During the construction phase, ORC contributed to the project by preparing the facility for operations through stakeholder engagement and contract management. In the operations phase of the project, ORC is responsible for ensuring that the contract deliverables are met and the objectives of the AFP program are achieved. The new courthouse consolidates justice services that were previously provided in eight different locations across Durham Region.

Durham Consolidated Courthouse, Oshawa

Other examples of progress this past year under the AFP umbrella include the reduction by a full year of the initial timeline for site delivery of the Thunder Bay Consolidated Courthouse. This was the result of a strategic process for site selection and acquisition, as well as support from the municipality. Finally, ORC has been instrumental in the plans for development of a consolidated courthouse at the historic Elgin County Courthouse in St. Thomas.

ORC infrastructure projects also come in the form of facilitating local infrastructure renewal through the sale or transfer of land to a municipality. In 2009–10, two sales of easements occurred that helped provide access to the Niagara Falls Convention Centre and the Mississauga Fire Training Centre. Other transactions included 34 for road works, 15 for pipeline and energy projects, 34 for recreational and other projects, and four sites for affordable housing. A sale of nearly nine and a half acres to the Regional Municipality of York will be used for an expansion of its rapid transit system.

ASSET MANAGEMENT

KEELE-WILSON PROVINCIAL CAMPUS REDEVELOPMENT

ORC is also leading the redevelopment of the nearly 75-acre Keele-Wilson Provincial Campus in northwest Toronto. Over the past year, ORC has worked with the City of Toronto, IO, Humber River Regional Hospital, the Ministry of Community Safety and Correctional Services and local stakeholders to develop a plan of subdivision for the Keele-Wilson Provincial Campus that meets the needs of the province, as well as the municipality and the surrounding community. ORC has received approval from the City of Toronto for the plan of subdivision, and site infrastructure construction is under way. Work will begin in the coming fiscal year on the Forensic Services and Coroner's Complex for the Ministry of Community Safety and Correctional Services.

The Keele-Wilson Provincial Campus redevelopment demonstrates the commitment of the government and ORC to progressive land-use planning, energy efficiency, growth planning and cutting-edge delivery of critical public services. The City of Toronto will benefit from the creation of ongoing jobs in the area from the provision of enhanced health care services to the local population.

Aerial view of Keele-Wilson Provincial Campus, Toronto

"As a client ministry, I am excited by ORC's transformational process and dedication to excellence and I'm looking forward to working in this new model. I know that many at ORC have worked long and hard to make this happen and you should be very proud. The future looks very bright indeed."

Judy Stamp
Director, Facilities Management Branch, Ministry of the Attorney General

ASSET MANAGEMENT

To enhance its focus on asset integrity and strategic asset management, in 2009–10 ORC implemented a new approach to property and land management. This is a key element of ORC's new asset management model.

In June 2009, ORC engaged CB Richard Ellis (CBRE), a global property management and development company, to provide property and land management services across the province using industry-leading practices and integrating sustainability principles. In October 2009, the property and land management model was introduced to the central and southwest regions. In April 2010, CBRE began providing services in the north and east regions.

The new model provides enhanced customer service through ORC Property Services, a centrally managed operations centre that handles day-to-day facility management issues such as work order requests, facility emergencies and scheduled maintenance for both owned and leased government properties. ORC Property Services offers a bilingual service available to customers and tenants 24 hours a day, seven days a week. In 2009–10, CBRE received a total of 28,879 calls, that resulted in a total of 54,877 work orders.

WEST DON LANDS

ORC and the Ministry of Energy and Infrastructure (MEI) are working in partnership with Waterfront Toronto, IO, the City of Toronto and other stakeholders to transform the West Don Lands into a vibrant, sustainable community.

By year-end, construction of the flood protection landform was 70 per cent complete. The flood protection landform will allow for redevelopment to proceed and will protect the downtown core from potential flooding. In the past year, a process known as "wicking," which assists with drainage and preparation of compressible soils, was finished. Low-level interceptor sewer rerouting was also completed, and impacted soil remediation is 95 per cent complete within the flood protection landform.

Artist's rendering of Don River Park
Courtesy of Waterfront Toronto

West Don Lands (Flood Protection Landform), Toronto

The project also involves the realignment of Bayview Avenue, the extension of River Street, reconstruction of Mill Street, installation of the associated servicing and utilities and preparation of the site for development of the Don River Park.

The site has been identified as the location of the Athletes' Village for the 2015 Pan/Parapan American Games being held in southern Ontario, after which it will be transformed into a mixed-use community. ORC is working actively with all stakeholders on this project to ensure that the site is prepared for future development.

Artist's rendering of Athletes' Village
Courtesy of 2015 Pan/Parapan
American Games

SEATON LANDS

ORC has continued to work with the provincial government and local stakeholders to advance the implementation of Seaton. In 2009–10, ORC, together with the MEI, initiated the Seaton Implementation Plan to outline key infrastructure requirements and innovative development approaches.

ORC will continue to work in partnership with the municipality and developers to deliver a sustainable community integrating urban design, smart growth, sustainable infrastructure and transportation, ecological site development and green building strategies.

SEATON LANDS

LEGEND

Employment lands

Residential lands

PROJECT SERVICES

> "The move by ORC to adopt industry standard contracts with a standard set of supplementary conditions developed in consultation with the industry has had a very positive impact in establishing the consistency and certainty that we look for in the marketplace."
>
> ***Clive Thurston***
> *President, Ontario General Contractors Association*

Construction projects are delivered in support of Ontario government ministry program needs and to support infrastructure investment, maintenance and renewal across ORC's managed portfolio.

In 2009–10, ORC delivered approximately 1,500 construction projects valued in excess of $300 million.

ORC delivers most projects through the services of three project management companies (MHPM, CBRE and SNC-O&M) contracted to provide project management services to deliver contracts valued between $50,000 and $5 million. Construction managers are hired directly by ORC to deliver projects outside these parameters.

ORC launched a new streamlined, online prequalification process in 2009–10 for the production of source lists to support the tendering of construction projects. ORC partnered with Biddingo to provide a tool to make the prequalification process faster and easier with a user-friendly, step-by-step process for contractors, consultants and other suppliers of goods and services. When tendering projects, the project managers invite general contractors and consultants from ORC source lists to bid on specific projects.

In 2009–10, ORC enhanced its business model by integrating the Project Management Information System (PMIS) to track and measure project delivery, including the "on time/on budget" performance of suppliers, streamline administration, and provide enhanced reporting and project controls.

Feedback from industry has been extremely positive, and ORC continues to refine the model and work with our industry suppliers through the Strategic Opportunities Committee (SOC). As an example of the effective collaboration with industry, ORC worked with the SOC to endorse the use of industry-standard CCDC2 and OAA Document 600, with ORC-specific supplementary conditions as the standard forms of construction and consulting contracts. In the coming year, ORC will be working closely with facility directors within each client ministry to ensure that all aspects of the model deliver optimal value to customers.

PROJECT SERVICES MAP

LEGEND
- North West
- North East
- East
- Central
- South West

ACCOUNT TEAMS

"CAOs commend ORC for its renewed focus on customer service and the accomplishments related to its Strategic Plan.The one-stop service model at ORC Property Services and the consistent province-wide model it has adopted have had a direct impact on improving services. We look forward to continued improvements and ongoing dialogue with ORC."

***Pam Skinner**, CAO and ADM, Business Management Division ADM, Housing Division Ministry of Municipal Affairs & Housing*

ORC has four dedicated account teams that liaise with ministry customers to provide overall account management and strategic real estate advice. In 2009–10, ORC worked with customers through the Facility Directors' Council to revise the service agreement outlining service standards, performance measures and accountabilities. The new service agreement included a commitment to continuous improvement and an agreed escalation process for dispute resolution. A new online Facility Management Information System/Customer Portal has also been created to better meet the needs of customers and to resolve issues in a timely and efficient manner.

ACCESSIBILITY

ORC takes seriously its responsibility for the accessibility of the built environment it manages on behalf of customers and has demonstrated leadership by developing a Pilot Accessibility Design Standard for Ontario government facilities. In 2009–10, ORC integrated the Pilot Accessibility Design Standard into a new 10-year, 54,000-square-foot lease at 101 Bloor Street West, Toronto, for the Ministry of Children and Youth Services. New accessible features were integrated into the space and provided a positive precedent for how ORC will work with landlords, customers and the design community to achieve accessible built environment solutions.

In 2009–10, ORC also undertook a comprehensive accessibility audit of 50 ORC-managed buildings across the province. The audits outlined recommendations and cost estimates for upgrades and retrofits to achieve compliance with the Pilot Accessibility Design Standard. The lessons learned from this process will help inform future audits of the remaining provincial portfolio, which will take place over the next several years.

Whitney Block, Queen's Park, Toronto

In 2009–10, ORC undertook the challenge of incorporating accessibility into the Whitney Block, a heritage building constructed in the 1920s. ORC is renovating the main entrance to provide an equitable and dignified entry to the building, through the installation of a new barrier free ramp encased in limestone, the creation of a new entrance lobby on the lower level and the installation of an elevator linking the lower level to the main floor security desk. ORC is proud to have tackled and successfully accomplished its goal of making this iconic building accessible while retaining its heritage features.

SUSTAINABILITY

Renfrew County Courthouse, Pembroke

Robert S.K. Welch Courthouse, St. Catharines

189 Red River Road, Thunder Bay

Ontario Realty Corporation is committed to integrating sustainability into every aspect of its business.

ORC is working closely with MEI to achieve two key targets. Tracking results against a 2006 baseline, the government has committed to reduce greenhouse gas consumption in Ontario government facilities by 19 per cent by 2014. ORC has also been a leader in reducing electricity consumption throughout the portfolio. At the end of 2009–10, ORC had reduced electricity consumption by 17.27 per cent against the 2002–03 baseline and is well on its way to achieving the goal of a 20 per cent reduction by the end of 2012–13.

ORC has undertaken many capital projects through an ambitious repair program investing approximately $8 million in 2009–10 in energy management, including 25 lighting retrofits, 26 thermal efficiency projects, eight water conservation projects and 78 heating, ventilation and air conditioning (HVAC) upgrades. In 2009–10, ORC installed green roofs, which help lower indoor air temperatures and absorb rainwater, at the Ottawa Courthouse and Garden City Tower in St. Catharines. In keeping with the objectives of the *Green Energy Act*, ORC is conducting renewable energy feasibility studies at over 50 government facilities.

In 2009–10, three ORC buildings – the Renfrew County Courthouse in Pembroke, the Robert S.K. Welch Courthouse in St. Catharines and the Ontario government building at 189 Red River Road in Thunder Bay – were each named “The Office Building of the Year” (TOBY) national award winners in their respective categories by the Building Owners and Managers Association of Canada (BOMA Canada) and have been nominated for the corresponding international awards. The three TOBY winners were among 12 government-owned facilities that achieved BOMA BESt (Building Environmental Standards) certification in the 2009–10 fiscal year, bringing the total number of certified buildings in ORC’s portfolio to 59.

ORC is incorporating sustainability principles and measuring sustainability factors within major real estate projects. As well, it is developing a sustainable operations guide that will outline best practice measures to be followed by facility and operational staff at the building level. Another layer to the operations guide is CBRE’s continuation of sustainability programs such as energy efficiency, green cleaning, recycling, waste reduction, energy management training and LEED® certification.

ORC was one of the first organizations to take part in the National Administration Buildings Pilot Project sponsored by the Canada Green Building Council, which was undertaken in eight government buildings across the province. ORC’s efforts helped provide information for a new LEED® rating system (Existing Building: Operations and Maintenance), which will assist building owners and managers in accelerating greening efforts.

ENERGY MASTER PLAN

In 2009–10, ORC developed a comprehensive Energy Master Plan that maps out ORC’s strategy for energy management over the next 10 years. The plan underlines ORC’s commitment to chart an energy-efficient course for the long term. The Energy Master Plan will support ORC in achieving the government’s electricity reduction and greenhouse gas emission targets, as well as drive energy cost savings and increasing overall building efficiency. The plan also supports continuous improvement through the introduction of new green technology into the government portfolio.

NEW STRATEGIC PLAN

ORC IN THE NEXT DECADE

As the new decade begins, ORC is embarking on a new three-year strategic plan that will take the organization to the next level of performance, building value for customers and delivering service excellence to the Ontario government and Ontario Public Service.

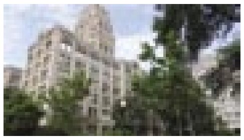
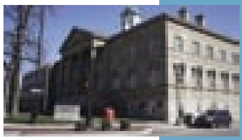
By moving beyond the reengineering of project services and the outsourcing of property and land management services to a single service provider, ORC will ensure the seamless integration and delivery of service with clear roles and expectations.

ORC is committed to creating a culture of conservation to support the *Green Energy Act*, by implementing sustainability best practices within ORC and on behalf of customers.

ORC will continue to support modernizing the workplace of the Ontario Public Service over the next decade.

Ontario Realty Corporation
Société immobilière de l'Ontario

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with Ontario Realty Corporation's (the Corporation) audited financial statements for the year ended March 31, 2010 and related notes, which are prepared in accordance with Canadian generally accepted accounting principles.

REVENUES

Revenues were derived from four sources: management fees paid by the Ministry of Energy and Infrastructure (MEI) for project management, property and asset management, and lease administration services; expense reimbursement (in lieu of fees) paid by MEI for corporate costs incurred by the Corporation (financial services, legal, corporate communications and human resource services) and administration costs associated with the sale and acquisition of properties on behalf of the ministries; direct recoverable costs associated with oversight of project services, provision of building operating and maintenance services and special projects undertaken on behalf of MEI and ministries; and bank interest.

Over the fiscal year, the Corporation launched the new business model for Property and Land Management Services for the Ontario government. As of April 2010, all four regions of the province have transitioned to a more effective and efficient service delivery model for our customers through a partnership with CB Richard Ellis. The Corporation also enhanced its project delivery model by integrating the Project Management Information System to track and measure project delivery, including the "on time/on budget" performance of suppliers, streamline administration, and provide enhanced reporting and project controls.

Management fees earned by the Corporation decreased nominally, a result of lower asset management fees and lower direct delivered project management fees partially offset by higher facility management fees. Direct recoverable costs decreased on lower reimbursement of costs for the Project Services strategic role, Project Management Information System, Property and Land Management Services initiatives, partially offset by higher reimbursement of Alternate Financing and Procurement initiative. Lower bank interest is a result of reduced interest rates. As a result, revenues were $63.2M in 2009-2010, lower by $3.7M compared to 2008/2009.

OPERATING EXPENSES

The Corporation incurred $62.2M in operating expenses over the reporting period, compared to $66M in the previous year. Approximately 67.8% ($42.2M) of the total operating expenses is for salaries and benefits. Included in salaries and benefits is $2.5M in salaries for temporary staff. Temporary staff is being utilized to fill positions on a short term basis during the Corporation's implementation of the new business model.

The Corporation incurred $17.9M in direct operating costs over the fiscal year, lower by $5.6M compared to 2008/2009. The decrease mainly relates to substantial completion of special projects in 2008/2009.

BALANCE SHEET

Total assets for the Corporation were $228.8M at March 31, 2010 compared to $178.8M at March 31, 2009. This is a result of increased funds held in trust impacted by the collection of portfolio related receivables during 2009-2010.

Cash and cash equivalents increased by $2.8M at March 31, 2010 which is the result of positive cash flow from operations - $3.1M, higher working capital - $0.7M, partially offset by the purchase of capital assets ($1.1M).

Accounts receivable decreased to $4.1M at March 31, 2010 from $4.9M at March 31, 2009, a result of timing of payments received.

Prepaid expenses increased to $1.3M at March 31, 2010 from $0.9M at March 31, 2009. This is due to the payment of rent, software support and maintenance expenses relating to the 2010-2011 fiscal year.

The net book value of capital assets decreased at March 31, 2010 due to amortization expense for the year partially offset by capital additions during the year.

Accounts payable and accrued liabilities at March 31, 2010 were $9.2M compared to $9.6M at March 31, 2009. The decrease is due to lower year end vendor payables.

NEW ACCOUNTING DISCLOSURES

Financial Statement Concepts - Section 1000

Canadian Institute of Chartered Accountants (CICA) Handbook Section 1000, Financial Statement Concepts, has been amended to clarify the criteria for recognition of an asset and the timing of expense recognition. The new requirements are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard does not have a material impact on the Corporation's financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS – NOT YET ADOPTED

The Introduction to Public Sector Accounting Standards

The Introduction to Public Sector Accounting Standards sets out the applicable source of generally accepted accounting principles applied by government organizations. In October 2009, the CICA amended this section which directs other government organizations such as the Corporation to consider the needs of the users of their general purpose financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or International Financial Reporting Standards are more appropriate. The Corporation is currently assessing the impact of the new recommendations on its financial statements.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 21, 2010.

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. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Deputy Auditor General of Ontario. The Deputy Auditor General'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, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

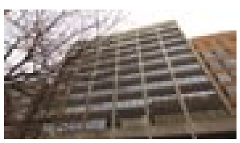
H.R. Goss
Chief Financial Officer & Treasurer

Dated: May 21, 2010

Ontario Realty Corporation

Société immobilière de l'Ontario

FINANCIAL STATEMENTS



AUDITOR'S REPORT

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Realty Corporation,
The Minister of Energy and Infrastructure,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2010 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Toronto, Ontario
May 21, 2010

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

BALANCE SHEET

(in thousands of dollars)

As at March 31	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents (notes 8b and 8c)	$ 42,780	40,010
Accounts receivable (note 8d)	4,113	4,927
Prepaid expenses	1,305	906
Due from Province (note 4)	920	1,018
	49,118	46,861
Capital assets (note 5)	6,516	7,530
Funds held in trust (note 8g)	173,136	124,381
	$ 228,770	178,772
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,162	9,598
Deferred revenue (note 8a)	774	-
Provision for severence costs (note 4)	920	1,018
	10,856	10,616
Funds held in trust (note 8g)	173,136	124,381
RETAINED EARNINGS	44,778	43,775
	$ 228,770	178,772
Commitments (note 6)		
Contingencies (note 7)		

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

On behalf of the Board:

Director: Carol Gray   Director: Karen Weaver

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

(in thousands of dollars)

Year Ended March 31	2010	2009
REVENUE		
Management fees (note 8a)	$ 33,671	$ 33,835
Direct recoverable costs (note 8a)	15,300	18,306
Expense reimbursements - in lieu of fees (note 8a)	14,085	14,085
Bank interest and other income (note 8c)	126	684
	63,182	66,910
EXPENSES		
Salaries and benefits (notes 4,8e and 9)	42,206	39,885
Direct operating expenses (note 8f)	17,884	23,473
Amortization	2,089	2,602
	62,179	65,960
EXCESS OF REVENUE OVER EXPENSES BEFORE SEVERANCE COSTS	1,003	950
Provision for severance costs (note 4)	(98)	1,018
Future recoveries from Province (note 4)	98	(1,018)
EXCESS OF REVENUE OVER EXPENSES	1,003	950
RETAINED EARNINGS, BEGINNING OF YEAR	43,775	42,825
RETAINED EARNINGS, END OF YEAR	$ 44,778	$ 43,775

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

Year Ended March 31	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	$ 1,003	$ 950
Adjustments for:		
Amortization	2,089	2,602
Provision for severance costs (note 4)	(98)	1,018
Future recoveries from Province (note 4)	98	(1,018)
	3,092	3,552
Changes in non cash working capital		
Decrease in accounts receivable	814	2,244
Increase in prepaid expenses	(399)	(559)
Increase in deferred revenue	774	-
Decrease in accounts payable and accrued liabilities	(436)	(3,798)
	3,845	1,439
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets (note 5)	(1,075)	(2,669)
Net change in cash and cash equivalents	2,770	(1,230)
Cash and cash equivalents, beginning of year	40,010	41,240
Cash and cash equivalents, end of year	$ 42,780	$ 40,010

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

NATURE OF THE CORPORATION

The Ontario Realty Corporation (the Corporation) was established under the Capital Investment Plan Act 1993 (the Act) as a Crown Corporation of the Province of Ontario (the Province). The Province has delegated authority to the Corporation under subsections 6(1), 8(1) and 8(2) of the Ministry of Government Services Act to acquire, hold and, with approval, dispose of property for government and government related agencies. As a Crown Corporation and operational enterprise of the Province, the Corporation is exempt from income taxes. The Corporation reports to the Minister of Energy and Infrastructure (MEI).

The Corporation is accountable to the Province and provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 49.9 million rentable square feet: 38.8 million owned by the Province and 11.1 million leased from the private sector, as well as 99,301 acres of land owned by the Province.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to a 'going concern', which assume that the Corporation will continue operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Management regularly reviews and considers the current and forecast activities of the Corporation in order to satisfy itself as to the viability of operations. These ongoing reviews include current and future business opportunities, customer and supplier exposure and forecast of cash requirements and balances. Based on these evaluations management considers that the Corporation is able to continue as a going concern.

Significant accounting policies followed in the preparation of these financial statements are:

a) Revenue

Fees, expense reimbursement and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred and collection is reasonably assured.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, if any, with terms to maturity of less than 90 days.

(in thousands of dollars)

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

d) Capital Assets

Capital assets in excess of one thousand dollars with a future useful life beyond the current year are capitalized at cost. They are amortized on a straight-line basis over their estimated useful lives as follows:

Computer hardware and software	3 years
Custom software	5 years
Furniture, fixtures and office equipment	3 years
Leasehold improvements	5 -10 years

e) Employee Pension Plans

Until November 29, 2001, the Corporation provided pension benefits to its classified full time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Pension Fund, which are multiemployer defined benefit pension plans.

Effective November 30, 2001, amendments to the Capital Investment Plan Act 1993 stipulated that the Corporation's employees were no longer part of the Ontario Public Service. Employees who had participated in the Public Service Pension Fund or the Ontario Public Service Employees' Pension Fund continued, from November 30, 2001, as participants in the Public Service Pension Fund. This plan is a multiemployer defined benefit pension plan, established by the Province. This plan is accounted for as a defined contribution plan.

Regular full-time employees hired after November 29, 2001 participate in a mandatory defined contribution pension and savings plan administered by a third-party administrator. The Corporation matches employees' mandatory contributions.

The pension expense represents the Corporation's contributions to the plans during the year.

f) Financial Instruments, Recognition and Measurement

The following is a summary of the accounting model the Corporation has elected to apply to each of its significant categories of financial instruments outstanding at March 31, 2010:

Cash and cash equivalents	Held-for-trading
Accounts receivable and Due from Province	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

All cash and cash equivalents are determined by reference to quoted prices in active markets for identical assets and liabilities.

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

Transaction costs related to financial instruments classified as held-for-trading, loans and receivables and other financial liabilities are expensed as incurred.

The Corporation does not enter into any hedges and it does not have any financial instruments classified as available-for-sale, hence, no comprehensive income is recorded.

2. NEW ACCOUNTING DISCLOSURES

Financial Statement Concepts - Section 1000

Canadian Institute of Chartered Accountants (CICA) Handbook Section 1000, Financial Statement Concepts, has been amended to clarify the criteria for recognition of an asset and the timing of expense recognition. The new requirements are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard does not have a material impact on the Corporation's financial statements.

(in thousands of dollars)

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Introduction to Public Sector Accounting Standards

The Introduction to Public Sector Accounting Standards sets out the applicable source of generally accepted accounting principles applied by government organizations. In October 2009, the CICA amended this section which directs other government organizations such as the Corporation to consider the needs of the users of their general purpose financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or International Financial Reporting Standards are more appropriate. The Corporation is currently assessing the impact of the new recommendations on its financial statements.

4. SEVERANCE COSTS

Recoverable Severance

The severance provision provides for staff severance costs associated with the Corporation's re-organization and contracting out its entire Province-wide property and land management services. These costs are funded by MEI. The re-organization is expected to be completed by 2010-2011 fiscal year. The change in the severance provision is as follows:

March 31	2010	2009
Severance provision, beginning of year	$ 1,018	-
Increase (decrease) in provision	(98)	1,018
Severance provision, end of year	$ 920	$ 1,018

Other Severance

The Corporation also incurred other employee severance costs in the regular course of operations totalling $1,519 (2009 - $69) that are included in salaries and benefits expenses in the Statement of Operations and Retained Earnings.

(in thousands of dollars)

5. CAPITAL ASSETS

Capital assets consist of the following:

March 31			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 9,008	$ 7,702	$ 1,306	$ 1,461
Custom software	8,353	7,768	585	730
Furniture, fixtures and office equipment	1,010	921	89	172
Leasehold improvements	6,531	1,995	4,536	5,167
	$ 24,902	$ 18,386	$ 6,516	$ 7,530

During the year ended March 31, 2010, capital assets were acquired at an aggregate cost of $1,075 (2009 - $2,669). Included in computer hardware and software is $426 (2009 - $226) not amortized as assets were not in use at March 31, 2010.

6. COMMITMENTS

Operating leases are expensed in accordance with terms of the lease agreements. Under the terms of operating leases for the Corporation's office space and vehicles the Corporation is committed to future rental payments as follows:

For the year ending March 31	
2011	$ 2,786
2012	2,825
2013	2,838
2014	2,838
2015	2,964
Thereafter	6,861
	$ 21,112

7. CONTINGENCIES

During the ordinary course of its business, as an agent of the Ontario Government, the Corporation is occasionally involved in litigation proceedings. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government. It is management's opinion that damages for which the Corporation may become responsible, if any, will be indemnified by the Ontario Government and will therefore not have a material effect on the financial position or results of operations of the Corporation.

8. RELATED PARTY TRANSACTIONS

a) The Corporation is economically dependant on the Province as all of the revenue received from the Province for the provision of services are under the control of the MEI.

The Corporation's prime sources of revenue are:

i. Management Fees

Market-based fees are charged for services provided for Property and Asset Management, and Project Management that are based on a percentage of project costs, related to MEI owned assets.

ii. Direct Recoverable Costs

Up to March 31, 2010 Corporation staff co-ordinate and provide direct building operating and maintenance services in support of the portfolio in the North and East regions. These costs are directly recoverable from MEI and funded from the operating and maintenance rental payments under accommodation agreements. In addition, out of pocket expenses associated with special projects undertaken on behalf of MEI and ministries were also recovered.

iii. Expense Reimbursement – In Lieu of Fees

Pending the implementation of a full fee structure, corporate costs incurred by the Corporation (third party leases, negotiation services, financial services, legal, corporate communications and human resource services) are funded by the Province as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries.

iv. Deferred Revenue

Funds received from Ministries for special projects are recorded upon receipt as deferred revenues. These revenues are recognized in the period in which the related costs are incurred.

b) The *Capital Investment Plan Act* requires that any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments. No such instructions have been received from the Minister of Finance.

c) The *Capital Investment Plan Act* requires that all short-term investments be invested with the Ontario Financing Authority (OFA), a Crown Corporation of the Province, unless the Minister of Finance agrees otherwise. Short-term investments of $18,411 (2009 - $33,354), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of $53 (2009 - $513) is included in Bank interest and other income in the Statement of Operations and Retained Earnings.

d) The Corporation's accounts receivable include $4,054 (2009 - $4,879) from the MEI and other ministries.

e) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pension-able service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by the Province and is not included in the Statement of Operations and Retained Earnings.

f) The Corporation's direct operating expenses include accommodation costs of $2,645 (2009 - $2,536) charged by the MEI General Real Estate Portfolio.

g) Funds Held in Trust
The Corporation maintains several operating bank accounts and one short-term investment account, which it holds "in trust" and administers on behalf of the Province. They relate directly to the operation of several provincially-owned and leased properties, or services provided to other ministries or agencies of the Province. The funds held in trust for the Province are $173,136 (2009 - $124,381).

h) As a result of the Corporation's relationship with the Province of Ontario, other related party transactions also exist and have been disclosed in the following note to the financial statements.

- Severance Costs (Note 4)

The above related party transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for services rendered.

9. PENSION PLANS

The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2010 were $1,679 (2009 – $1,642) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

10. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to counterparty (such as financial institutions, suppliers and customers) credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has established the Audit Committee which is responsible for developing and monitoring the Corporation's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities. The Corporation's risk management program seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation manages its risks and risk exposures through a combination of insurance and sound business practices.

Credit Risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Corporation assesses the credit quality of customers, taking into account their financial position, past experience and other factors.

Cash and cash equivalents

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are only invested in debt instruments of highly rated financial institutions.

Accounts receivable

Accounts receivable consist primarily of trade accounts receivable from billings where service was provided. The Corporation's credit risk arises from the possibility that a customer which owes the Corporation money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Corporation, which would result in a financial loss for the Corporation. This risk is mitigated through established credit management techniques, including monitoring customers' creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits. In the year ended March 31, 2010, the maximum credit risk to which the Corporation is exposed represents the fair value of its non-related party accounts receivable.

Liquidity Risk

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's objective in managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. The Corporation manages exposure to liquidity risk by closely monitoring supplier and other liabilities; by focusing on debtor collection; and by generating positive cash flow from operations. Liquidity risk may be impacted by a request from the Province of Ontario to return surplus funds, as described in note 8b.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Corporation's operations.

Foreign exchange

The Corporation's business transactions are in Canadian dollars and therefore the Corporation has no exposure to foreign exchange rates.

Interest rate

The Corporation is exposed to changes in interest rates, which may impact interest revenue on short term investments. As at March 31, 2010, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, excess of revenue over expenses would have increased or decreased, respectively, by approximately $414 (2009 - $406).

11. CAPITAL MANAGEMENT

The Corporation generates positive cash flows from its operations and defines capital as retained earnings. The Corporation's primary objective of managing capital is to safeguard its ability to continue as a going concern and meet its obligations. As outlined in note *8c*, the Corporation is required under the Capital Investment Plan Act to invest all short-term investments with the OFA. The Corporation is not subjected to any external capital requirements.