2015 2016 ANNUAL REPORT

Ontario Infrastructure and Lands Corporation

PURPOSE

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

WHAT WE DO

MAJOR PROJECTS

INFRASTRUCTURE LENDING

REAL ESTATE SERVICES

COMMERCIAL PROJECTS

Ontario

Infrastructure Ontario

OUR CULTURE

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

OUR VALUES

EXECUTION DRIVEN

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

DILIGENT

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

CLIENT FOCUSED

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

INNOVATIVE

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

PEOPLE ORIENTED

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

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Message from the Chair of the Board of Directors

Linda Robinson
Interim Chair,
Board of Directors

I am pleased to present the annual report of Infrastructure Ontario (IO), highlighting the agency's accomplishments during the 2015–16 fiscal year. The report demonstrates IO's continued success in delivering high quality infrastructure projects, real estate services, commercial advice, and infrastructure financing on behalf of the Government of Ontario.

Good governance is at the core of the agency's strength and is fundamental to its success. IO's Board of Directors oversees the agency's strategic direction, financial and operating performance, and seeks to identify, manage, and mitigate risk. This past year's performance has been exceptional in the scope and size of the services provided and demonstrated IO's continued ability to deliver upon its commitments.

IO has continued to adapt its management structure to allocate appropriate resources to new initiatives and strategic priorities. The capabilities of IO's management team and the professionalism and dedication of all its employees underlie all of the agency's achievements. On behalf of the Board, I want to commend IO's President and Chief Executive Officer, Bert Clark, and all of IO's staff for their commitment to excellence.

We are committed to building on our internationally recognized track record by continuously modifying and improving how we deliver services to the Province. During the past year, the agency has worked to strengthen and enhance service delivery based upon input from the Auditor General and committees of the Legislature. We have continued to enhance our infrastructure delivery model to reduce project financing costs, better calculate value for money, deliver strategic management of government real estate assets, and finance important public infrastructure projects across the Province.

The Board of Directors is proud of what IO has accomplished during the past year and looks forward to continued success in the years to come.

This past year also saw the retirement of an individual who has guided the growth of IO since its inception 10 years ago and who is one of the principal architects of its success. Tony Ross was the Chair of IO's Board of Directors until his tenure concluded at the end of the 2015-16 fiscal year. I wish to express my personal gratitude, and that of my fellow Board members, to Tony for his unwavering dedication throughout his decade of service to the organization. His oversight, guidance, and engagement with staff will continue to serve as an example to everyone at IO into the future.

Linda Robinson
Interim Chair, Board of Directors

Bert Clark
President and Chief Executive Officer

I am pleased to share the results of IO's work for 2015-16. I believe that we as an organization continue to make a meaningful contribution to Ontario through our mandate for major public infrastructure projects, provincial real estate assets, loans for public infrastructure renewal, and commercial projects that improve public service delivery.

IO's Major Projects group continued to deliver on one of the most ambitious infrastructure programs anywhere in the world. Since its establishment a decade ago, IO has completed over 50 Alternative Financing and Procurement (AFP) projects across Ontario worth more than $17 billion in capital cost. The successful projects include new hospitals, courthouses, college facilities, highways, and transit projects. Last year, seven projects reached substantial completion. Another three projects reached financial close. The Major Projects group continues to employ leading edge project delivery practices with a focus on protecting the public interest, maintaining strong budgets, and adhering to schedules, high quality assets, and safety on projects. For example, IO was a key partner in delivering the Pan/Parapan American Games facilities. As well, we helped Metrolinx to procure the Eglinton Crosstown LRT, the biggest project using modern project delivery in Canadian history. These are two of many examples of world class results. A third–party analysis of our Major Projects delivery track record confirmed that 44 of the first 45 AFP projects to reach substantial completion were completed on or below budget.

IO's Real Estate division has made strategic investments in the provincial real estate portfolio during the past year, consistent with our goal of modernizing the portfolio and reducing the government's office space footprint. Last year's investments totalled over $650 million for building operation and maintenance and over $275 million for building capital reinvestment. In partnership with our client ministries, our real estate experts continued to work toward lower energy consumption and greenhouse gas emissions in buildings across the province. We advanced sales of surplus real estate and also managed a high number of leases with great success. We are also doing preparatory work for a number of upcoming transformative modernization projects like the Toronto Consolidated Court.

This year, the Lending team grew the portfolio by approximately 10%. Eighty-eight new loans with a value of over $750 million were approved. This was a particularly strong result given the introduction of our new credit policies, which reflect a lower tolerance for risk. These loans assist communities to build and renew everything from social housing to ice rinks to water mains and sewers. Since its establishment, the loans program has approved more than $8.5 billion to help clients improve the quality of life in communities across Ontario.

The Commercial Projects group made progress on a number of fronts including work towards the sale of the LCBO lands. Our strong analytical capabilities, and commercial and negotiating abilities, serve to protect the public interest in complex transactions.

We are proud of these many accomplishments, but we will not be satisfied with this success. We will continue to work with our clients and partners to find innovative solutions. To further these goals, we undertook an organizational restructuring this year to focus on strategic priorities, better allocate staff resources, and provide staff development opportunities at various levels of the organization.

The contribution to community among the people of IO stretches well beyond our daily work, including IO Gives Back, Women@IO, the Federated Charities campaign, Habitat for Humanity, and other employee-led initiatives.

I am confident that, during the coming year, IO will continue to deliver value to the Province, stakeholders, and employees as we work together toward revitalizing and modernizing Ontario's public assets.

Bert Clark
President and Chief Executive Officer

Sound Governance

WHO WE ARE

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

At IO, we think of ourselves as a private sector company doing public service. This philosophy has created a culture of people leveraging best practices from the world of business to protect and advance the public interest. We believe in the potential of the public and private sector working together. All IO business lines have a track record of building successful relationships with the private sector to benefit Ontarians across the province.

All told, we have constructed over $17 billion dollars' worth of new hospitals, courthouses, colleges, transit projects, and sports facilities under the Alternative Finance and Procurement (AFP) project delivery model, making Ontario one of the world's foremost infrastructure markets. Using our home-grown, made-in-Ontario AFP model, we now have better public assets and we have an industry that is creating jobs and economic benefits, while transforming Ontario's communities and economy in the process.

By the same token, the breadth and depth of our real estate portfolio and infrastructure loan program is felt in many communities across the province. We manage close to 5,000 buildings and 44 million rentable square feet across nearly 400 communities. We have approved 975 loans for more than 350 clients across Ontario. We are proud of how IO brings together this expertise to benefit people and communities who rely on public services.

CORPORATE GOVERNANCE

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

The delivery of infrastructure projects worth billions of dollars, coupled with the responsibility to manage one of the largest real estate portfolios in North America, makes it essential that IO has rigorous and accountable governance structures and practices in place. IO applies a high standard of corporate governance to ensure operational efficiency and accountability. IO has a robust and well-structured governance framework. The Ontario Infrastructure and Lands Corporation Act, 2011 sets out IO's authority and responsibilities.

The agency is accountable to the Ontario Legislature through the Minister of Economic Development, Employment and Infrastructure. A Memorandum of Understanding (MOU) with the Minister clarifies and delineates IO's roles and responsibilities, as well as the accountability framework between the ministry and the agency. The annual business plan and annual report submitted to the Minister are prepared in accordance with applicable legislation and the government's Agencies and Appointments Directive.

Decision-making thresholds of IO's management committees and individual staff members are governed by a Delegation of Authority, which is approved by the agency's Board of Directors.

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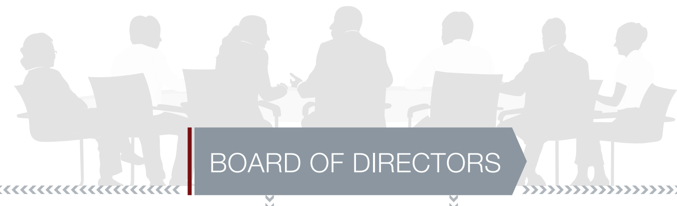


BOARD OF DIRECTORS

GOVERNANCE & COMPENSATION COMMITTEE

Recommends Board/committee composition; promotes corporate governance principles; reviews/recommends staff compensation/succession plans; oversees corporation pension and benefits plans

› Meets quarterly

INVESTMENT COMMITTEE

Reviews/assesses public works, infrastructure and real estate projects, and projects assigned to IO having high value, high profile, high risk, or complex structure

› Meets quarterly

RISK COMMITTEE

Monitors IO's risk profile and lending function; reviews/oversees adherence to lending/treasury policies

› Meets quarterly

AUDIT COMMITTEE

Oversees IO's Enterprise Risk Management (ERM), financial reporting and audit process, and financial reporting of the General Real Estate Portfolio

› Meets quarterly

INVESTMENT & RISK COMMITTEE

Reviews/approves major transactions at critical project milestones or refers transactions to the Investment Committee of the Board for review/approval

› Meets quarterly

PENSION MANAGEMENT COMMITTEE

Manages corporation pension plans, reporting to the Executive Committee, and Governance and Compensation Committee

› Meets quarterly

REAL ESTATE COMMITTEE

Oversees asset management, strategic asset planning, realty transactions and land development that impact the General Real Estate Portfolio

› Meets quarterly

AFP STEERING COMMITTEE

Oversees business development, delivery, and operations related to AFP projects; oversees Early Works and traditionally-delivered projects over $20 million

› Meets quarterly

CREDIT REVIEW COMMITTEE

Develops/oversees credit risk and capital management policy; monitors all lending functions of the organization

› Meets quarterly

RISK AND CONTINUOUS IMPROVEMENT COMMITTEE

Oversees execution of Enterprise Risk Management Framework and internal audit plan; approves/oversees continuous improvement initiatives

› Meets quarterly

MANAGEMENT CODE OF CONDUCT ACCOUNTABILITY AND TRANSPARENCY

CODE OF CONDUCT

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

RISK MANAGEMENT

Most of IO's business activities involve an element of risk and therefore effective management of risks is fundamental to IO's success. IO uses a robust framework that ensures risk management is an integral part of its activities. Risks are identified and managed through a comprehensive Enterprise Risk Management (ERM) program that helps the organization identify, evaluate, mitigate, monitor, and report on risks. The Board approves an ERM policy on an annual basis and oversees prioritization and the ongoing monitoring of IO's risks. Key risks are regularly reviewed by senior management and reported to the Board and MEDEI. More detail on the risk categories, risk framework, and key risks can be found in the Management Discussion and Analysis (MD&A) section of this report.

ACCOUNTABILITY AND TRANSPARENCY

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

OUR PURPOSE

IO is helping to rebuild and expand the Province of Ontario's infrastructure by executing one of the most ambitious infrastructure renewal programs in over a generation.

IO continues to modernize the provincial government's real estate portfolio, lead innovative redevelopment opportunities, provide financing, and manage some of the largest and most complex projects on behalf of the Province.

WE STRIVE TO

- Protect the public interest by providing the government with expertise when negotiating with the private sector;
- Manage long-term risks posed by aging and inadequate public infrastructure and real estate assets;
- Stimulate economic benefits and jobs by delivering government investment in infrastructure and real estate in collaboration with the private sector;
- Generate revenues through land sales and development, unlocking the value of public assets; and
- Deliver vital infrastructure through a lending program that enables public sector organizations to provide services to Ontarians in communities throughout the province.

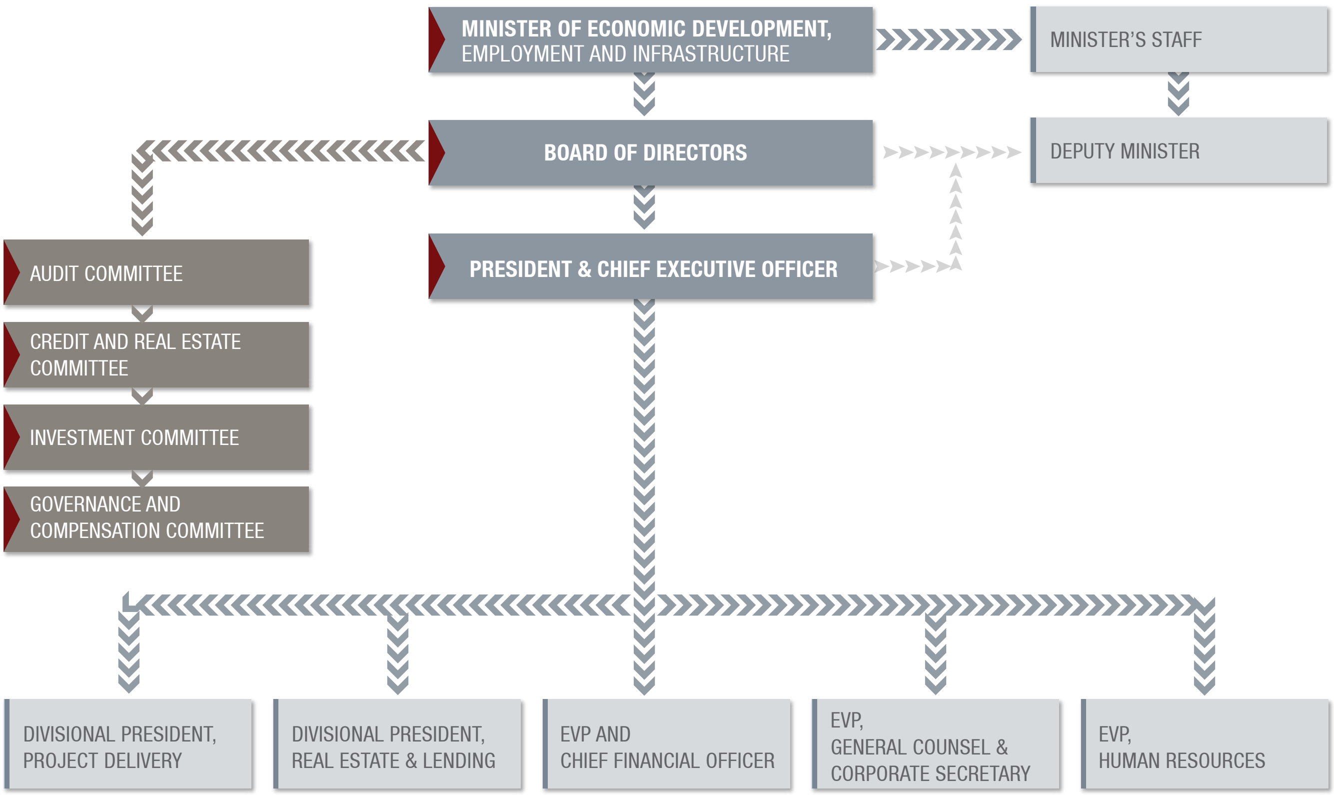
Waterloo Region Courthouse

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

Brockville Courthouse

Union Pearson Express

Our Corporate Structure



BOARD OF DIRECTORS

Our Board consists of 12 experienced and well-informed members. The directors have a wide breadth of expertise and private sector knowledge, as well as business, industry, financial, and other relevant experience to carry out their fiduciary duties and uphold the interests of the organization.

Total annual remuneration paid to the Board of Directors in fiscal 2015-16 was $228,410.

D. Anthony Ross, Chair
(Term: June 6, 2011, to March 31, 2016)

Mr. Ross worked as a Business Consultant for RG Group where he advised financial institutions, governments, and universities. Earlier, Mr. Ross was Vice-Chair of Merrill Lynch Canada, where he directed the activities of the Capital Markets group. Mr. Ross retired from the Board of Directors on March 31, 2016.

Linda D. Robinson, Vice Chair
(Term: February 21, 2016, to February 20, 2018)

Linda Robinson is a retired partner of Osler, Hoskin & Harcourt LLP, a leading Canadian law firm, where she was a senior partner in the corporate group and Chair of Osler's national business law department. Ms. Robinson has accepted the role of Interim Chair of the Board of Directors.

Bruce Bodden
(Term: February 25, 2015, to February 24, 2017)

Bruce Bodden retired from MMM Group Limited in 2013, where he practiced engineering and management over a 44-year career. For 10 of his last 12 years at MMM, he was President and CEO and served as Chairman for two years prior to his retirement.

Colleen Campbell
(Term: October 23, 2013, to October 22, 2016)

Colleen Campbell is the Vice-Chair of BMO Capital Markets, the investment and corporate banking arm of the Bank of Montreal. She is recognized as a leader in the development of the model for infrastructure bond financing in the Canadian market.

Bert Clark
IO President and CEO
(Term: August 1, 2015, to August 1, 2018)

Patrick J. Dillon
(Term: September 6, 2015, to September 5, 2017)

Patrick Dillon is the Business Manager and Secretary Treasurer of the Provincial Building and Construction Trades Council of Ontario. Mr. Dillon was appointed by the Government of Ontario to serve on several boards, including the Workplace Safety and Insurance Board.

Carol Gray
(Term: January 24, 2016, to January 23, 2017)

Carol Gray is the immediate past President of Equifax Canada. Her work in the financial services industry has included positions as General Manager, Strategic Planning; Senior Vice-President, Commercial Banking; and Executive Vice-President, Small Business Banking with CIBC.

Lawrence Kelly
(Term: May 4, 2013, to May 3, 2016)

Larry Kelly founded the law firm Kelly Santini LLP more than 30 years ago, practicing in corporate, real estate, employment, litigation, estate planning, and sports law. Mr. Kelly's professional experience includes serving as a director of several companies, universities, and hospitals.

David Leith
(Term: January 23, 2014, to January 22, 2017)

David Leith has over 25 years' experience with CIBC World Markets in debt and equity markets, government finance, and mergers and acquisitions. He was Deputy Chairman and Managing Director and head of CIBC World Markets' Investment, Corporate, and Merchant Banking activities.

Gadi Mayman
(Term: January 24, 2014, to January 23, 2017)

Gadi Mayman is Chief Executive Officer of the Ontario Financing Authority, responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO of the Ontario Electricity Financial Corporation.

President and Heads of Divisions

Our Corporate Structure

Vito Sgro
(Term: July 17, 2013, to July 16, 2016)

Vito Sgro is a Chartered Accountant and a partner with CBM Chartered Accountants LLP, dealing with all accounting, auditing, and general financial issues for the firm's clients. He is a former Auditor and Appeals Officer with the Canada Revenue Agency.

John Swinden
(Term: January 27, 2014, to January 26, 2017)

John Swinden is a retired partner from Ernst & Young Toronto. In his 39 year career with the firm, he practiced auditing and accounting in a number of areas. He also served as the Chief Financial Officer of the Canadian firm and as the Director of Risk Management for Ernst & Young International.

PRESIDENT AND CEO

Bert Clark
(Term: August 1, 2015, to August 1, 2018)

Since arriving at IO in August 2012, Bert has led Infrastructure Ontario through a significant period of growth, emphasizing rigorous upfront diligence, consistent project delivery, and client-focused execution.

Before joining IO, Bert spent four years running the North American Infrastructure business for Scotiabank. Prior to his role at Scotiabank, Bert held the position of Senior Vice President of Projects at IO where he was responsible for the overall financing strategy of the agency's multi-billion dollar infrastructure program.

From 2003 to 2005, Bert was a senior advisor at Queen's Park where he helped lead the establishment of Ontario's first long-term infrastructure investment plan. He played a lead role in introducing the concept of Alternative Financing and Procurement to refresh Ontario's public infrastructure. Prior to 2003, Bert spent five years at Osler, Hoskin & Harcourt LLP.

DIVISIONS

Infrastructure Ontario has been asked to play a lead role on a number of new and exciting government initiatives. These include a historic public transit investment program, a range of very large and complex commercial transactions, and various strategies to better manage our real estate portfolio.

The agency fulfills its mandate through two main divisions and four priorities:

REAL ESTATE AND LENDING

- Realty Planning and Management
- Loan Program

PROJECT DELIVERY

- Major Projects/AFP Infrastructure Development
- Commercial and Land Development

The main divisions are supported by three corporate functions:

- Finance, Risk and Information Services
- Human Resources
- Legal Services

FINANCE, RISK AND INFORMATION SERVICES

Krishnan Iyer
Executive Vice President and Chief Financial Officer

The Finance, Risk and Information Services division supports the organization by monitoring and accounting for corporate-wide financial activities, maintaining IO's information technology, and developing corporate reporting methodologies and content.

FINANCE AND TREASURY

Finance and Treasury supports the organization by ensuring the integrity of financial information. The team establishes budgets, monitors results by division and department, and issues quarterly reports and financial statements.

CREDIT RISK

Credit Risk reviews information and monitors management of the organization's lending activities including: lending and underwriting standards; asset quality; the amount, nature, characteristics, concentrations, and quality of the organization's loan portfolio; and conditions that may materially impact the loan portfolio.

TRANSACTION FINANCE

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

INFORMATION TECHNOLOGY

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

RISK MANAGEMENT AND INTERNAL AUDIT -

Risk Management is responsible for ensuring appropriate Enterprise Risk Management (ERM) policies and systems are in place to identify, monitor, and mitigate significant risk. Internal Audit provides independent, objective assurance on the design and operating effectiveness of internal controls within the organization.

CORPORATE REPORTING AND PERFORMANCE MEASUREMENT

Corporate Reporting and Performance Measurement is responsible for developing and implementing frameworks and methodologies to measure results and outcomes against corporate and divisional objectives. The team also provides Master Service Agreement performance and contract compliance expertise and is responsible for the real estate inventory data quality scorecard, as well as the asset on/off boarding process.

HUMAN RESOURCES

Kim Ellis
Executive Vice President

IO is the employer of choice for nearly 500 talented professionals who have the expertise and experience required to fulfill IO's mandate, along with a deep commitment to public service. IO's Human Resources team cultivates employee engagement through:

- Compensation and benefits – responsible for IO's compensation, benefits, and payroll functions;
- Business solutions – providing HR consulting advice with primary responsibility for employee relations and talent acquisition;
- Learning and development – offering learning and development, talent management, and succession planning programs;
- HR programs – focusing on health and safety, diversity initiatives, and employee programs.

LEGAL SERVICES

Marni Dicker
Executive Vice President, General Counsel, and Corporate Secretary

The Legal Services division is comprised of several specialized teams including: Procurement and Records Management, the Legal Services group, and the Business Strategy and Communications team. Together, the division provides critical corporate services to support priorities across the organization.

PROCUREMENT

Procurement provides leadership in the procurement process to enhance efficiencies and achieve cost savings, promote transparency, and assure fair procurement practices.

RECORDS AND KNOWLEDGE MANAGEMENT

The Records and Knowledge Management group ensures compliance with Ontario's Archive and Record Keeping Act, 2006 by applying document retention protocols and coordinating off-site archival, storage, and retrieval of hard copy records.

Our Corporate Structure

LEGAL SERVICES

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

BUSINESS STRATEGY AND COMMUNICATIONS

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

PROJECT DELIVERY

Ehren Cory
Divisional President

The Project Delivery division executes its mandates under two priorities: Alternative Financing and Procurement (AFP) projects and Commercial Projects.

ALTERNATIVE FINANCING AND PROCUREMENT

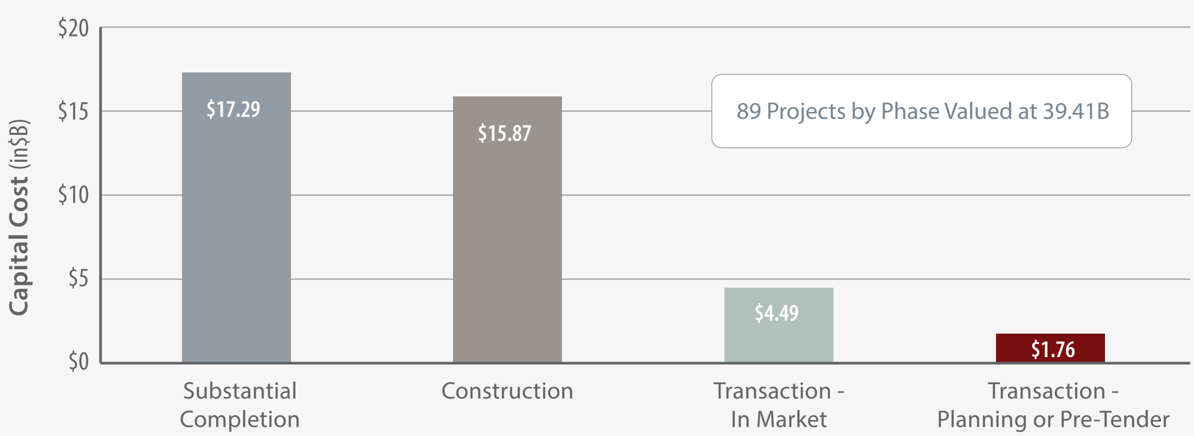
Alternative Financing and Procurement is an innovative made-in-Ontario model that employs public-private partnerships to finance and deliver large, complex infrastructure projects. The AFP model utilizes private expertise and financing to strategically build vital infrastructure, while ensuring appropriate public control and ownership. The model helps protect the public interest by integrating the design, construction, financing, and maintenance components of a project. The model transfers appropriate risks and provides value for money while striving to deliver projects on-time, on-budget, and to specification.

During the past decade, IO has completed more than 50 projects using the AFP model, the majority of which are health care and justice facilities. The agency has also constructed education and technology facilities, major sports venues, and transit and transportation infrastructure.

AFP PORTFOLIO AT A GLANCE

Fifty-four projects have reached substantial completion, worth an estimated $17.3 billion in capital cost.

AFP Project Volumes and Values - All Assigned Projects



COMMERCIAL PROJECTS

The Commercial Projects team works to develop public-private partnerships that reduce costs, generate revenue, and create efficiencies and improvements in the delivery of government services. These partnerships may be linked to economic development investments by the government, to alternative service delivery contracts, or to the divestment of government assets.

The team serves a variety of provincial and municipal clients across numerous sectors such as government and consumer services, transportation, energy, and real estate. The team offers a breadth of services that range from advising government on the optimal commercial structure of public-private partnerships related to transmission and transportation infrastructure, to the design, execution, and negotiation of large contracts.

Over the past year, the Commercial Projects team has undertaken a range of projects that include: the negotiation of an expanded tolling services agreement for Highway 407; executing the sale of the Liquor Control Board of Ontario head office lands in downtown Toronto; ongoing work with the City of Mississauga regarding the Ontario Power Generation Lakeview site; and advising the Ministry of Energy regarding several large contracts with private sector entities.

REAL ESTATE AND LENDING

Toni Rossi
Divisional President

The Real Estate division provides professional services to government in support of the management of the General Real Estate Portfolio (GREP) and the Provincial Secondary Land Use Program for hydro corridor lands, and offers realty advice to agencies and other government entities. The Lending department manages an active loan program of over $8.5 billion that serves eligible broader public sector organizations.

The real estate services delivered by the agency are wide ranging and customized to meet the varying needs of government and ministry stakeholders. IO is mandated to: maintain the portfolio in a state of good repair with the resources available; right size and rationalize the portfolio; maximize the value of assets during the sale process; and provide real estate services that support public service program needs.

IO's loan program is one of the largest public sector loan programs in Canada. The program provides affordable access to loan products not readily available in the market to support the renewal and development of critical public sector infrastructure.

Over the last several years, IO implemented a number of strategies to modernize the government portfolio and make the most of every dollar that is spent in the realty portfolio and to refocus the loan program in key growth areas.

Delivery overview:

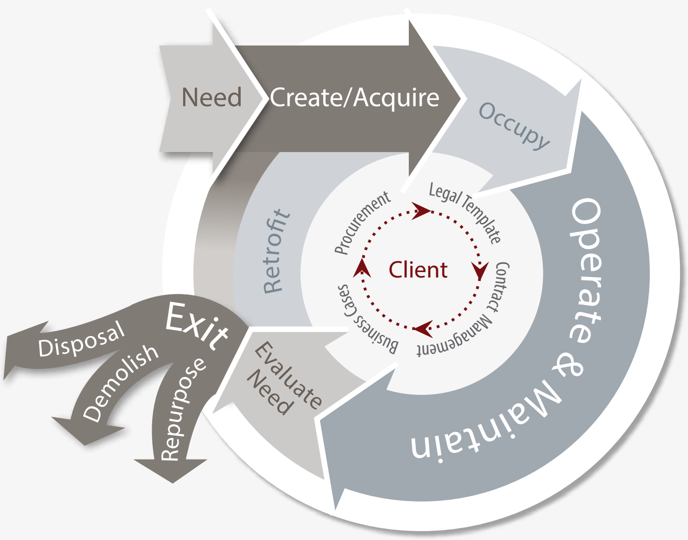
- Generating revenue and rationalizing the portfolio by selling non-essential properties;
- Improving efficient operations by consolidating services in facilities and reducing the office space footprint;
- Delivering capital repair projects by partnering with the private sector;
- Investing in energy retrofits to make buildings more sustainable;
- Renewing and reimagining neighbourhoods and precincts; and
- Targeting loan growth with municipalities, universities, hydro utilities, non-profit affordable and social housing, and non-profit long-term care sectors.

IO REAL ESTATE STRATEGY

The building stock is old – and getting older. Land holdings are vast – and that comes with risks. The Ontario Government, through MEDEI, holds Canada's second largest real estate portfolio. The portfolio is large, old, valuable, expensive and diverse. Properties range from offices to courts, prisons to laboratories, heritage buildings to land banks, and reflect a wide range of functions the government supports.

In consideration of full life cycle costs of an asset, IO categorizes land and buildings into core assets identified for long-term use, transition assets that require additional review, and surplus assets identified for sale or demolition. These categories inform business and budget decisions and recommendations to government. Thinking beyond

Asset Life Cycle:



a single asset enables IO to maximize the level of utilization, reduce the portfolio, and minimize costs.

The division is structured to modernize, optimize, value enhance and integrate next generation government real estate through six departments with expertise in all aspects of the real estate life cycle:

REALTY PORTFOLIO PLANNING (RPP)

The Realty Portfolio Planning team balances the supply and demand for government real estate by rationalizing underutilized and vacant assets and identifying future realty needs, optimizing real estate holdings through a comprehensive enterprise review of assets, and developing recommendations that could include: asset re-investment; asset and land acquisition; land use planning, value enhancement; and divestment. The Specialized Portfolio team provides optimization and performance strategies for long-term value.

OFFICE REAL ESTATE PORTFOLIO

The Office Real Estate Portfolio group provides office accommodation and office portfolio recommendations to support ministry program requirements and government priorities. These objectives are implemented through two integrated teams. The Office Portfolio Strategy team transforms office space into efficient, modern, and flexible accommodation. The Client Management team provides strategic accommodation planning to rationalize and optimize both new and existing office space.

REALTY TRANSACTIONS

The Realty Transaction group executes commercial leasing, sales, easements, and acquisition agreements, undertakes property appraisals, and performs property tax administration. The group establishes contractual relationships with private sector service providers who augment the Realty Transaction team with market intelligence and information to support the development of sound business strategies. The team delivers over 1,000 real estate transactions per year.

REAL ESTATE MANAGEMENT

The Real Estate Management group provides diverse services including: planning capital investment requirements; asset management and project delivery; energy and greenhouse gas management; regulatory compliance; health, safety and security advice; and contract governance expertise for three outsourced contracts and multiple vendors of record.

REALTY ANALYTICS AND CLIENT INTEGRATION

The Realty Analytics and Client Integration team analyzes and reports realty asset inventory information and provides research and benchmarking functions. The team also develops client outreach and integration strategies to ensure that IO's services are fully aligned with client plans and expectations. The team's geomatics and land survey experts provide services to enable informed portfolio decisions.

ALTERNATIVE FINANCE AND PROCUREMENT – OPERATIONS

The AFP Operations team ensures that optimum performance and value for money are achieved throughout the long-term concession period for those government-controlled assets that have been built under the AFP model. The team oversees 10 AFP operations contracts with annual service payments of approximately $170 million.

MUNICIPAL BUSINESS DEVELOPMENT AND LENDING

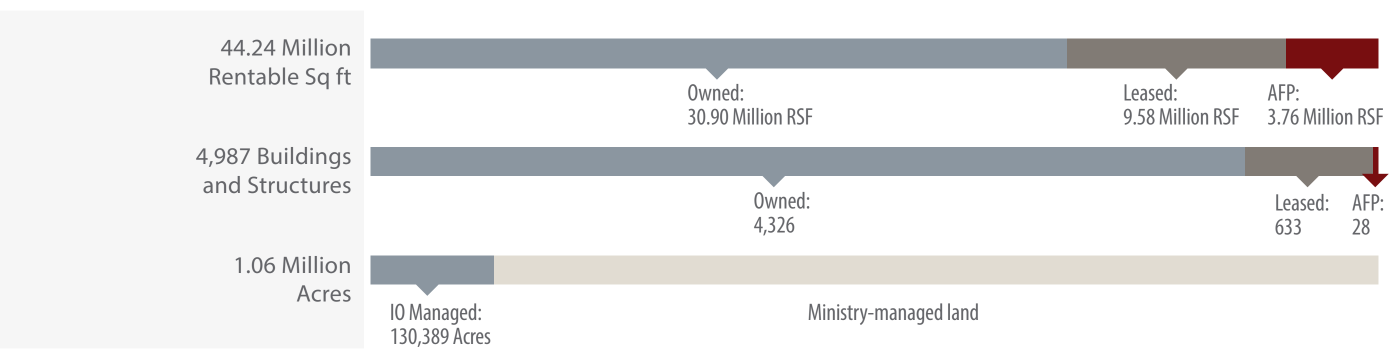
Modern and efficient public infrastructure is of fundamental importance in building and maintaining a strong economy, prosperous communities, and a clean healthy environment. The Real Estate Division's Lending team provides loans to meet the unique needs and complex development challenges of municipalities, universities, and other public sector organizations.

The Lending team provides long-term financing to eligible public sector organizations in order to develop and renew infrastructure that will deliver value to customers and residents across Ontario. The team currently oversees 923 active loans.

IO LENDING STRATEGY

The Lending team plans to expand the loan portfolio by: concentrating on a number of key sectors that have demonstrated overall stability over many years; strong regulatory oversight; and mature federal, provincial, and municipal funding support. These sectors encompass important social program areas of infrastructure renewal and development, education, affordable housing, and long-term care. By focusing on these key areas, the lending group is able to maximize value that its affordable loans provide eligible borrowers and the constituents they serve.

General Real Estate Portfolio at a Glance



Our Achievements in 2015-16

OUR RECORD

ALIGNING SERVICES WITH GOALS

The 2015-16 corporate objectives are consistent with IO's values and are organized according to four business drivers that support their fulfillment: growth and new business, good governance, talent and people management, and operational effectiveness. These areas of focus illustrate how IO intends to continually improve while delivering excellent results.

We use a performance measurement framework to ensure projects and processes are consistent with the strategic direction and to monitor progress against key markers of success. Performance is reported on a quarterly basis to the Executive and the Board of Directors using a corporate scorecard, divisional dashboards, and a risk management dashboard which provides commentary on specific issues and accomplishments.

In fiscal year 2015-16, IO achieved all of its corporate objectives. Details on the objectives and the results are listed in the following table:

	AREA OF FOCUS	OBJECTIVE	RESULT
	GROWTH AND NEW BUSINESS		
1	Create and implement new opportunities aligned with government priorities.	Secure new AFP delivery mandates for transit and transportation.	Government approval received for 5 new mandates
		Secure new AFP mandates for social infrastructure projects.	Government approval received for 2 new mandates
		Secure new commercial project mandates.	Government approval received for 11 new mandates
		Secure approvals required to continue modernizing the real estate portfolio.	Approval received related to Macdonald Block Decant Solution & Reconstruction and the Ontario Power Generation proposed sale and lease back.
		Shift growth of the loan portfolio consistent with new credit policies.	98% of the 88 loan applications approved and executed met the new credit policy requirements.
	GOOD GOVERNANCE		
2	Strengthen relationships as a trusted partner working for the public interest.	Report in a timely, informative and high quality manner on all material project activities and risks to the IO Board of Directors and Executive team, and as required to MEDEI.	Corporate reporting package prepared & delivered for IO Board & Executive team per schedule.
		Ensure clarity around IO's role and responsibilities with MEDEI and clients consistent with the Memorandum of Understanding (MOU) and Letters of Direction (LOD).	An internal working group was established to review the MOU and LODs. Tracking, reporting and record keeping meausres were put in place to ensure compliance.
		Implement the Auditor General's Report recommendations including the collection of available empirical data.	IO shared empirical evidence collected with the Standing Committee on Public Accounts in Fall 2015. IO will provide an update to the Auditor General on the implementation of all recommendations by the due date.
	TALENT AND PEOPLE MANAGEMENT		
3	Attract, develop, engage, and retain people to deliver successfully on our mandate and objectives.	Ensure continued improvement in employee engagement with a particular focus on areas below the corporate average.	IO continued to improve Employee Engagement in: Procurement & Records Management: 95% , Real Estate Management: 75%, Major Projects-Civil: 89%, Finance, Treasury & Transaction Finance: 83%
		Continue to retain and attract talented people to address growing responsibilities.	IO's overall voluntary turnover is 10.06% (Industry at 9.9%)

	AREA OF FOCUS	OBJECTIVE	RESULT
	OPERATIONAL EFFECTIVENESS		
4	**Strive to be effective, efficient and productive.**	On-time and on-budget delivery of major projects and real estate projects.	Major Project Delivery: 4/7 projects on-time, 6/7 projects on-budget Real Estate Projects: 97.7 % on-budget, 92.6% on-time
		Ensure managers have financial tools to make resourcing decisions and align resources with priority growth areas.	New quarterly financial reports were developed and issued to the executive team by division and department.
		Meet the annual Corporate Budget	The projected surplus for the Fiscal Year (before any loan loss provisions) of $10M is significantly better than the $1.8M budget, largely due to certain one time events.

PROJECT PERFORMANCE

VOLUME AND VALUE BY DELIVERY STREAM

The Ontario government investments in infrastructure and real estate are resulting in economic benefits for Ontario, growth opportunities for Ontario companies, and employment opportunities for Ontarians. IO works on approximately 5,600 projects of varying size and complexity each year. IO assesses project complexity, risks, and return on investment to determine the appropriate delivery stream. In certain cases, recommendations are made to government for project implementation through either traditional project delivery or delivery under the AFP model.

DELIVERY STREAM	$ RANGE	NUMBER OF PROJECTS	$ VALUE (ROUNDED)
Major Projects (AFP)	Over $100 million	89	$39.4 billion*
Commercial and Land Development	varies	20	$42.6 million**
IO Traditional Project Delivery	$10-50 million	33	$189.1 million**
Projects delivered by outsourced Project Management Service Providers (leasehold improvements and asset management capital repairs)	$100,000-$10 million	1,471	$236.3 million***
Projects delivered by outsourced Property and Land Management Services (facility management services, and small works)	up to $100,000	4,009	$31.8 million***

* capital costs since inception
** total project value, includes studies and 2 programs with several projects under $10 million
*** 2015-16 expenditure

AFP PROJECTS UNDERWAY IN 2015-16

SEVEN PROJECTS REACHED SUBSTANTIAL COMPLETION:

- Hamilton Health Sciences - Ron Joyce Children's Hospital
- Humber River Hospital
- Oakville-Trafalgar Memorial Hospital
- Ontario Highway Service Centres
- Pan American Games Stadia and Velodrome
- Right Honourable Herb Gray Parkway
- Women's College Hospital

CONSTRUCTION BEGAN ON THREE PROJECTS:

- Eglinton Crosstown Light Rail Transit
- St. Thomas Elgin General Hospital
- Viva Bus Rapid Transit

SIX REQUESTS FOR PROPOSALS ISSUED:

- Centre for Addiction and Mental Health Phase 1C
- Etobicoke General Hospital Phase 1
- Finch West Light Rail Transit
- Highway 427 Expansion
- Mackenzie Vaughan Hospital
- Seneca College King Campus

FEATURE PROJECTS

AFP PROJECTS

HUMBER RIVER HOSPITAL

The Humber River Hospital project consolidated the hospital's services in a new 656 bed facility that increased patient capacity by nearly 25 per cent. Located in north Toronto, the 1.8 million square foot hospital offers expanded emergency services, increased specialized outpatient services, modern diagnostic equipment for better patient diagnosis and treatment, and updated infectious disease containment systems to monitor and prevent a broad range of infections.

Plenary Health Care Partnerships was selected to deliver the project and construction began in September 2011. One of the largest AFP projects in the province, the new hospital reached substantial completion in June 2015, on time and on budget.

HAMILTON HEATH SCIENCES - RON JOYCE CHILDREN'S HEALTH CENTRE

Located in downtown Hamilton, the new children's treatment centre provides a variety of patient and family-focused services and programming, including autism spectrum disorder services, child and youth mental health programs, and developmental pediatrics and rehabilitation.

Designed to provide a space where children, youth, and adults will feel welcomed, engaged, and encouraged while receiving care, the building employs colourful furniture, accent walls, and textural materials to create a joyful and inviting environment. With a spacious four-storey atrium, full height windows, and outdoor terraces, the design makes the best use of natural light.

PCL Partnerships was selected to deliver the project and began construction in May 2014, employing approximately 120 construction workers daily at the peak of construction. The new facility was completed on time and on budget in October 2015.

FEATURE PROJECT

EGLINTON CROSSTOWN LIGHT RAIL TRANSIT (LRT)

The Eglinton Crosstown Light Rail Transit project is IO's most ambitious AFP project and the largest public-private partnership project currently underway in Canada.

Part of the largest transit expansion in Toronto's history, the line will be constructed along Eglinton Avenue in Toronto, between the Mount Dennis station and the Kennedy subway station. Ten kilometres of the 19-kilometre corridor will run underground between Keele Street and Laird Drive. In all, there will be 15 underground stations and 10 at-grade stops, connecting the rail line to the Toronto Transit Commission's bus and subway network, to GO Transit lines, and to the new Union Pearson Express service.

A $9.1 billion contract was awarded to Crosslinx Transit Solutions in 2015 to design, build, finance, and maintain the infrastructure, building systems, and vehicle components for a term of 30 years. The project also includes construction of a maintenance and storage facility at Mount Dennis.

The Eglinton Crosstown Light Rail Transit line is the first project to be financed through government-issued green bonds, intended to promote investment in environmentally friendly infrastructure. In 2015, the project was awarded a Gold Award for Project Financing by the Canadian Council for Public Private Partnerships.

The project is being delivered by IO in partnership with Metrolinx, the provincial Crown agency responsible for the integration and management of public transportation in the Greater Toronto and Hamilton Area (GTHA). An integral part of Metrolinx's regional transportation plan, the Eglinton Crosstown line constitutes the single biggest expansion of urban rapid transit in the GTHA in more than a half century.

Construction of the Crosstown line began in July 2015. Once the completed line enters service in 2021, it will move people up to 60 per cent faster than existing bus service and accommodate more than 10 times as many passengers. By 2031, the line is expected to carry approximately 5,500 passengers per hour during peak periods.

FEATURE PROJECT - AFP OPERATIONS AND AFP PROJECT DELIVERY

ELGIN COUNTY COURTHOUSE WINS TWO AWARDS IN 2015-16

Located in St. Thomas, the Elgin County Courthouse was built to combine the Superior Court of Justice and the Ontario Court of Justice within one location. This award-winning design saw the restoration and incorporation of the historic 1853 Elgin County Courthouse and Land Registry Office into the new facility. The courthouse was the first AFP project with a heritage component delivered by IO using the Design-Build-Finance-Maintain delivery model.

The courthouse's energy efficient design and operational excellence earned the project LEED Gold certification in 2014. To ensure that energy efficient building operations continue in the 30-year maintenance phase, IO's AFP Operations team worked with the operating consortium, Integrated Team Solutions, to achieve the Building Owners and Managers Association BOMA BEST Gold certification for sustainable building operations in January 2016.

In February 2016, the courthouse was also recognized by the Regional Commercial Council of London and St. Thomas Association of Realtors with a Don Smith Commercial Building Award in the Institutional Buildings category. IO's AFP Project Delivery and Environmental Management teams were recognized for conserving and restoring the original courthouse and Land Registry Office, and successfully incorporating these heritage buildings into the new courthouse complex.

The Elgin County Courthouse project has won eight awards since its opening less than two years ago. Previous awards have recognized the project's excellence as a P3 project, architectural conservation, rehabilitation and restoration of its heritage buildings, and success in implementing its environmental and design considerations.

The BOMA BEST and Don Smith Commercial Building awards are outstanding examples of how IO's multi-disciplinary teams work with its service providers to ensure the success of projects and ongoing building operations.

FEATURE PROJECT - COMMERCIAL PROJECTS

SALE OF LIQUOR CONTROL BOARD OF ONTARIO (LCBO) LANDS

The Commercial Projects team worked with LCBO and external advisors to develop and manage a two-stage Request for Proposal (RFP) process for the sale of the LCBO's head office lands, located in downtown Toronto. The sale of the 11 acre property offers the opportunity to maximize its use and value and realize revenues for the Province.

The purchaser selected through the RFP process is also responsible for the design and delivery of the LCBO facilities, including a 25,000 square foot flagship retail store and 180,000 square feet of head office space.

Since the property was formerly industrial land, the Commercial Projects team called upon IO's Environmental Management team for environmental, geotechnical and heritage advice. In support of the sale project, the Environmental team undertook the following:

- scope and procurement assistance for environmental due diligence reports;
- reliability review of environmental reports prior to RFP release;
- advice on heritage obligations and protection; and
- environmental and geotechnical support during RFP evaluation.

In September 2014, IO issued an RFP for the sale of the site. The RFP process provided the government with the best opportunity to deliver the business needs of the LCBO while also maximizing the value of the lands. It also provided a mechanism for potential purchasers to become familiar with project risks, expectations, and requirements of the sale prior to submitting a fully informed and viable proposal. The RFP closed in September 2015.

FEATURE PROJECT – TRADITIONAL PROJECT DELIVERY PROJECTS

GOVERNMENT OFFICE ACCESSIBILITY UPGRADES

The Ministry of Community and Social Services is modernizing offices in 26 locations throughout the Province that provide services to people with disabilities. This $28 million modernization will see the implementation of an open concept design, improving accessibility and desk-side customer service. Construction is currently underway with completion planned for 2018.

URBAN PARK AND WATERFRONT TRAIL, ONTARIO PLACE, TORONTO

As the first step in the revitalization of Ontario Place on Toronto's waterfront, the Ministry of Tourism, Culture and Sport requested IO to undertake the design and construction of 7.5 acres of parkland on the east island. The project includes environmental remediation, shoreline repairs, extensive plantings, and construction of walkways and a park pavilion featuring First Nations imagery. Phase 1 of the project, which included site preparation, shoreline reinforcement, and subsurface works was completed in 2015. Completion of the project is planned for spring 2017.

FEATURE PROJECT - PROJECT MANAGEMENT SERVICE PROVIDERS

NEW FIRE MANAGEMENT CENTRE, HALIBURTON

Located at the Haliburton Airport within the township of Algonquin Highlands, the new Ministry of Natural Resources and Forestry Fire Management Centre was designed to unique requirements for the ministry's Air, Forest Fire and Emergency Services. The 18,800 square foot single-storey building includes offices, locker rooms, laundry, warehouse, briefing area, kitchen, and training facilities. The site includes a helipad to house two rotary-wing aircraft and an apron to house two fixed-wing aircraft. The $10.5 million project reached substantial completion in March 2016, on time and on budget.

OFFICE ACCOMMODATION SERVICES

OFFICE FOOTPRINT REDUCTION, 159 CEDAR STREET, SUDBURY

159 Cedar Street is a multi-tenanted, government-owned building in downtown Sudbury of approximately 150,000 rentable square feet. The project focused on downsizing and modernizing multiple ministry spaces while accommodating additional staff transferred to the building from a third-party lease. This successful accommodation project, which reduced the leased office space by nearly 30,000 rentable square feet, was completed on time and under budget.

ENVIRONMENTAL PROGRAMS

ENERGY CONSERVATION

To support energy conservation and reduce expenditures, IO sets targets to reduce overall energy consumption in government owned and operated buildings. In 2013, IO targeted an annual two per cent reduction in energy consumption over the next seven years. The target, which focuses on all energy types (electricity, natural gas, propane, etc.), is measured in equivalent kilowatt hours (ekWh). Progress towards the target has been positive, realizing a cumulative reduction of 12.6% as of December 2015.

REDUCTION OF GREENHOUSE GAS EMISSIONS

The Ontario Government committed to conserving energy and reducing greenhouse gas (GHG) emissions from its buildings, under the Green Energy Act, 2009 and the Ontario Public Service Green Transformation Strategy. As part of this strategy, a GHG reduction target of 27% is to be achieved by 2020, as compared to 2006 baseline levels. IO has achieved an estimated 33% cumulative reduction as of December 2015.

LEADERSHIP IN ENERGY AND ENVIRONMENTAL DESIGN (LEED)

During 2015-16, four buildings received certification through the Canada Green Building Council's Leadership in Energy and Environmental Design program promoting energy efficiency and the use of environmentally sustainable practices in the design, construction, and operation of buildings. This brings the number of buildings in the real estate portfolio that have been LEED certified to 52.

IO promotes green building practices that minimize the impact of buildings under construction by reducing the consumption of resources and disruptions to the natural environment. Once in operation, green buildings conserve energy, decrease water consumption, produce fewer greenhouse gas emissions, create healthier working environments, and reduce waste.

SPECIES-AT-RISK PROTECTION AND COMPENSATION LANDS

The Ontario Endangered Species Act, 2007 prohibits the harm and harassment of protected species and damage to or destruction of their habitat. A species-at-risk overall benefit permit can be obtained to perform construction or development within a protected habitat, providing that the habitat is replaced with another parcel of land. The provincial real estate portfolio of surplus properties includes many parcels which, due to location, access issues, or land use designations, are currently unmarketable but may be suitable as compensation lands.

One such use of compensation lands during the 2015-16 fiscal year arose from IO's preliminary work to deliver the Finch West LRT in west Toronto, within the habitat of the Eastern Meadowlark. This bird, along with its habitat, is designated as threatened on the Species at Risk in Ontario list. IO's Realty Portfolio Planning and Realty Transactions teams identified viable compensation lands within the Oak Ridges Moraine, which Metrolinx, the project sponsor, will acquire at market value. Metrolinx will transform the area to recreate the bird's habitat and provide on-going stewardship as required under the Act.

REAL ESTATE PORTFOLIO RATIONALIZATION

REALTY PORTFOLIO PLAN

The Management Board of Cabinet Realty Directive and government policy set out requirements for realty portfolio planning including practices for the determination of surplus realty assets and the processes for disposing of surplus assets. A rolling three-year strategic plan focuses on re-investing and re-using assets, pursuing value enhancement activities, and executing real estate transactions to generate sales revenue and reduce ownership liability. In 2015-16, IO set out to compile the next group of surplus properties for sale, and create a list of prioritized demolition targets to further reduce the portfolio and maintenance costs over the upcoming three years.

ACCELERATED DEMOLITION PROGRAM

The Accelerated Demolition Program is intended to complement the existing Sales Program by demolishing vacant surplus buildings included in the General Real Estate Portfolio. The two-year program will see the demolition of surplus buildings that have no opportunity for reuse, minimal sales value, and offer savings by reducing costs, liabilities, and risks. In 2015-16, 25 buildings were demolished, totaling 48,932 rentable square feet.

OFFICE FOOTPRINT REDUCTION

In 2012, the provincial government began implementation of a Realty Transformation Strategy to better utilize and maximize its realty portfolio. As part of this strategy, the government established two targets to maximize and revitalize its office space usage: a reduction of 1 million square feet of office space in Toronto and 300,000 square feet of office space outside of Toronto, over a 10 year period starting in April 2012. As of March 2016, the office footprint has been reduced by approximately 827,700 square feet or nearly two-thirds of the 1.3 million target, resulting in more than $20 million in annual rental savings.

■ LEASING SERVICES

IO leases over nine million rentable square feet of facility space from the private sector. Approximately 20% of this space expires annually. By strategically planning ministry accommodation needs, and using our widespread knowledge of local real estate markets, IO maximizes opportunities under advantageous market conditions and minimizes impacts during unfavourable conditions. IO works with brokers to develop comprehensive lease expiry plans that leverage landlord relationships, private and public sector buying power, and the security of government leases to keep rates at or below market for all renewals and new deals. In 2015-16, the Leasing team completed over $592 million in lease transactions and negotiated approximately $35.1 million in savings for the Province.

At a Glance:

262
lease transactions completed in 2015-16

$35.1
million in negotiated rental savings

320
landlords

935
leases negotiated

FEATURE PROGRAM - LEASING

LEASE RENEWAL, 777 BAY STREET, TORONTO

Located in downtown Toronto and within walking distance of Queen's Park, this leased location houses several ministries with varying program needs. In 2015-16, the IO Leasing team successfully negotiated one of the largest lease transactions in Canada with the building's landlord, Canderel, involving 13 lease renewals totaling 468,317 square feet, with a gross transaction value of $149.2 million. The leasing team used service call data and occupancy satisfaction surveys to negotiate non-financial terms with landlords, addressing tenant concerns and negotiating several upgrades and benefits.

SALES - SURPLUS REAL ESTATE ASSETS

The ability to dispose of assets is increasingly challenging given that most of the large, high value, and easily saleable surplus assets in the inventory have already been disposed. The assets that remain are impacted by a variety of internal and external factors. External factors include: environmental constraints, land use planning constraints, non-urban locations, market conditions, intensity of stakeholder participation, and the magnitude of redevelopment costs. Internal government factors include heritage legislation, ministry program holds, and duty to consult requirements for needed Orders-in-Council. These factors impact marketability and length of time required to sell assets. IO is working with ministry stakeholders to streamline many internal processes and alleviate these constraints.

The real estate sales program enables IO to generate short-term revenue and reduce long-term liabilities by eliminating surplus assets from the portfolio. The program also allows limited capital repair funding to be applied to core buildings in program use.

In fiscal year 2013-14, IO implemented a three-year disposition plan with the goal of generating $79 million in revenue through the sale of surplus properties. At the conclusion of the 2015-16 year, IO had realized total revenue in the amount of $117.5 million, exceeding the three-year revenue target by $38.5 million. In addition, IO exceeded its liability reduction target by $2.1 million, over the $1.5 million target.

OVER THE LIFE OF THE THREE-YEAR PROGRAM:	
Negotiated Benefit (Sale Price - Appraised Value)	$6.0 million
# of Transactions Closed	562
# of Buildings Sold	71
Total Land Acreage Sold	415
Total Building Sq. Ft. Sold	548,249

A new three-year sales target has been set to generate an additional $60 million in revenue and achieve a liability reduction of $750,000 by 2019.

FEATURE PROGRAM - SALES AND DEVELOPMENT PLANNING

SALE OF SURPLUS LAND, VAUGHAN

A nine-acre parcel of land located near the junction of Highway 407 and Keele Street in the city of Vaughan had long been held by the Ministry of Transportation as the site of a future transitway station. In 2010, the ministry determined the site was no longer suitable for this purpose and released its hold on the property.

IO's Development Planning team recognized the significant development potential of this surplus property. Located in the heart of an employment district with excellent access to Highway 407, the site was considered ideally suited for commercial development. IO prepared the land for future commercial use and enhanced its value by conducting environmental and archaeological assessments, applying to remove the land from the Parkway Belt West Plan, and rezoning it to Prestige Employment use.

In January 2016, IO sold the land for $7.4 million, realizing an eight-fold increase over the initial $900,000 property value. This was IO's largest revenue deal in 2015-16 and illustrates the agency's ability to manage and enhance properties on behalf of the government.

■ SERVICES TO THE PUBLIC SECTOR

LENDING

IO's lending rates provide access to affordable financing for all eligible public sector organizations. Lending rates are based on the credit strength of each sector.

Borrowers may select repayment terms of up to 30 years; however, the repayment period must not exceed the expected life of the capital asset. The loan interest rate varies with the term of the loan.

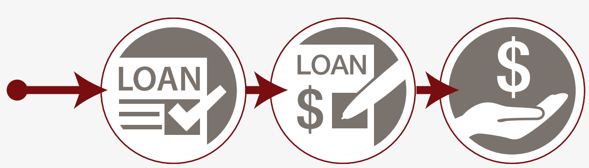
LOAN PROGRAM BENEFITS

There are various benefits for public sector borrowers:

- Affordable rates
- Access to capital market financing without any fees or commissions
- Longer terms designed to match the life of the asset
- No need to refinance over the life of the loan
- Application and forms available online
- Access to dedicated and experienced staff

IO has advanced affordable long-term financing to organizations throughout Ontario to support over 2,100 infrastructure renewal projects with a total project value of more than $13.2 billion. The bulk of the loan program is advanced to municipalities, housing providers, universities, and municipal corporations.

Lending Program at Glance



Inception

975 Loan Applications Approved

$8.5 billion in approved loans

370 Borrowers throughout Ontario

FEATURE - TOWN OF ARNPRIOR DOWNTOWN REVITALIZATION PROJECT

The Town of Arnprior partnered with IO to provide $6 million in financing for the revitalization of its downtown area. The multi-phase Downtown Revitalization Project will improve infrastructure and enhance the streetscape in order to attract investment to the community. The project will include the replacement of sewers, watermains, roads, sidewalks, and streetlights. This largest single self-funded investment made by the Town towards the rehabilitation of aging infrastructure will also improve accessibility in Arnprior's downtown core by eliminating barrier steps to many local businesses.

FEATURE

CITY OF WOODSTOCK POLICE STATION

The City of Woodstock came to IO to help finance a $4-plus million addition to its municipal police station. The project includes the addition of two new floors, totaling 12,000 square feet, to the existing station as well as renovations to the existing building. The expansion will add office space for additional programming services, such as Crime Stoppers and electronic investigations, and upgrades such as an elevator, staff entrance, and other improvements. The addition will allow the Woodstock Police Service to bring all of its operations under one roof to better serve the citizens of the Woodstock community.

VALUATION SERVICES

Payments in lieu of municipal property tax (PILTs) are issued to municipalities based on current value assessments as determined by the Municipal Property Assessment Corporation and the corresponding municipal tax rates. Recent real estate market value appreciation has placed taxation stress on the General Real Estate Portfolio. By 2020, IO expects that payments in lieu of taxes will grow approximately 63% to $112 million from their current level of $69.3 million. IO conducts annual valuation reviews to mitigate market value appreciation and works with municipalities to pre-negotiate reduced assessments. When necessary, IO files assessment appeals and municipal applications on incorrect billings. In 2015-16, the Valuations Services team negotiated savings of $4.2 million. This is the fourth consecutive year that the team has negotiated savings over $4 million.

ENGAGING INDUSTRY AND PARTNERS

IO is committed to working with companies, associations, and experts in order to share knowledge, gather input on best practices, and develop opportunities for cooperation. IO maintains regular dialogue with associations, service providers, and advisory firms, providing updates on continuous improvement initiatives and consulting with industry representatives through market soundings.

The agency also participates in industry conferences and events throughout the year to share its infrastructure development and real estate management expertise and provide updates on current and upcoming projects. In 2015-16, IO's Business Strategy and Communications team supported more than 50 public speaking opportunities.

Direct outreach to industry was also undertaken via a tradeshow organized with Metrolinx for nearly 250 contractors, small business owners, and social enterprises regarding the Eglinton Crosstown LRT project, and a similar initiative with the Ontario Road Builders Association, the Ministry of Transportation, and Metrolinx regarding alternative procurement models.

Building on last year's momentum, the Business Strategy and Communications team published IO's Spring Market Update, highlighting $7.55 billion in AFP projects, six direct delivery projects, and an estimated 370 real estate capital repair projects.

The team also made significant strides in sharing IO's work with the public in more proactive ways via the agency website, Twitter, YouTube, and LinkedIn media platforms.

CROSS-JURISDICTIONAL COLLABORATION

IO's doors are always open to colleagues in municipal, provincial, federal, and international governments as the agency believes that open communication and sharing of experiences is the best foundation for growth, high performance, and success. During the year, IO continued to share information with other public sector organizations, including the US National Governors Association and more than 14 international delegations.

IO was pleased to participate in federal government market consultations, sharing contract model best practices that served to inform the Public Works and Government Services Canada Request for Proposals for Property and Land Management Services.

OUR SERVICE PROVIDERS

PROJECT MANAGEMENT SERVICE PROVIDERS (PMSPS)

IO undertakes capital renewal projects to maintain and renew the buildings it manages, as well as projects requested and funded by ministries that adapt facilities to meet program needs. IO engages Project Management Service Providers to deliver project management services for assignments across the province valued between $100,000 and $10 million.

The PMSPs oversee the delivery of over $200 million worth of construction, maintenance, and improvement assignments on an annual basis. The IO Outsourced Contract Governance Team reviews performance using a comprehensive set of fee-at-risk key performance indicators.

SNC-Lavalin O&M is the PMSP for northern Ontario and the downtown Toronto core and Colliers Project Leaders is the PMSP for southern Ontario, the Greater Toronto Area, and eastern Ontario.

The two PMSPs engage hundreds of small and medium-sized Ontario businesses for the provision of products and services over the term of their contracts. The Master Service Agreements expire in 2020.

PROPERTY AND LAND MANAGEMENT SERVICES (PLMS)

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

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

AFP PROJECT COMPANIES AND FACILITY MANAGEMENT PROVIDERS

IO has ongoing 30 year relationships with project and facility management companies who are responsible for the operation and life cycle asset management for 28 buildings owned by government. In 2015-16, the IO AFP Operations team implemented new dashboard reporting to enhance performance monitoring. The team also works with the service providers to advance IO and government objectives in areas such as energy management, sustainable operations, accessibility, and heritage preservation.

OUTSOURCED CONTRACT DUE DILIGENCE

IO manages the performance and compliance of service providers through a comprehensive governance structure that draws upon several internal work streams with subject matter expertise. The work streams, which range from project and facility management specialists to finance, procurement, and legal professionals, monitor service provider compliance with Master Service Agreements, legislative requirements, government policies, and IO procedures.

PROCUREMENT

Transparent and ethical business practices are imperative to IO's reputation publicly and in the marketplace. In 2015-16, the procurement team developed protections and safeguards against conflicts of interest and unethical bidding practices including: the implementation of sequential evaluation procedures, the roll-out of standing offer arrangements for certain advisory services, and the establishment of consistent evaluation frameworks.

RECORDS MANAGEMENT

With an array of service providers and numerous government stakeholders, protecting confidential information and being able to produce documentation when required is a priority. For IO, this involves a comprehensive information management strategy, including: a single document management system, a corporate document retention plan, and document storage and retention schedules. In 2015-16, the Records Management team finalized an approved retention schedule with the Archives of Ontario and initiated the rollout of an improved enterprise-wide records plan.

EMPLOYEE ENGAGEMENT

The unique skills and diverse expertise of IO's employees are at the core of its success. Attracting, engaging, enabling, developing, and retaining talented people are high priorities across the organization. IO's voluntary turnover, based on the past calendar year, is 10.06% which is marginally higher than industry at 9.9% (Professional and Technical Services Sector, CBC 2015).

IO strives to create a workplace where employees are committed to organizational goals, know how to contribute their best effort, feel challenged and engaged. IO's annual employee survey serves as one measure of engagement and enablement. This year, the employee survey measured improvement in focus areas which were below the corporate average.

LEARNING AND DEVELOPMENT

IO recognizes that continued success in delivering our mandate, meeting or exceeding clients' expectations, and sustaining a high performing workforce requires an ongoing investment in employees' learning and development. IO provides a wide-range of growth opportunities, from experiential learning gained through special projects and developmental assignments to a variety of in-class specialty courses designed to build leadership skills and expertise at all levels of the organization.

HEALTH AND SAFETY

IO is committed to the health and safety of its employees, its contractors and subcontractors, and visitors to its buildings and worksites. Health and safety initiatives have been put in place to comply with all relevant legislation, incorporate industry best practices, and ensure every reasonable precaution is taken to provide workplaces and worksites that are safe.

COMMUNITY INVOLVEMENT – IO GIVES BACK

IO and its employees care about the sustainability of the environment and vitality of the communities in which they live and work. IO employees contribute to communities across the province through volunteering, fundraising, and donations. In 2015-16, employees contributed over $70,000 to United Way Toronto and York Region through cash and payroll deduction and through a number of special events, including an OPS walk, CN Tower climb, a pumpkin carving contest, and golf tournament.

2015-16 List of Awards

PROJECT	CATEGORY
BRIDGEPOINT HEALTH	
Design	Civic Trust Awards – Commendation
EGLINTON CROSSTOWN LRT	
Financing	Canadian Council for Public-Private Partnerships - National Awards for Innovation and Excellence in Public-Private Partnerships - Gold Award for Project Financing
ELGIN COUNTY COURTHOUSE	
Design	American Institute of Architects, Academy of Architecture for Justice, Justice Facilities Review
Environmental	Building Owners and Managers Association - BOMA BEST Building Environmental Standards - Gold Certification
Heritage	Architectural Conservancy of Ontario, St. Thomas-Elgin Branch - Award, public category London and District Construction Association - Project Excellence Awards, Restoration-Conversion London and St. Thomas Association of Realtors - Don Smith Commercial Building Awards - Institutional Building Achievement Category - Institutional Heritage
HUMBER RIVER HOSPITAL	
Infrastructure/Construction	Canadian Council for Public-Private Partnerships - National Awards for Innovation and Excellence in Public-Private Partnerships - Gold Award for Infrastructure
LONDON HEALTH SCIENCES CENTRE / ST. JOSEPH'S HEALTHCARE, LONDON - M2P3	
Infrastructure/Construction	London and St. Thomas Association of Realtors - Don Smith Commercial Building Awards - Institutional Building Achievement Category - Institutional Healthcare Winner
PAN AMERICAN AQUATICS CENTRE, FIELD HOUSE AND CANADIAN SPORT INSTITUTE ONTARIO	
Infrastructure/Construction	Ontario General Contractors Association - Ontario Builder Awards, Category 6 Buildings
PAN/PARAPAN AMERICAN ATHLETES' VILLAGE	
Design	March of Dimes Canada - Award of Merit for Barrier-Free Design
RT. HON. HERB GRAY PARKWAY	
Environmental	Essex Region Conservation Authority - Special Award for Conservation
ROBINSON PLACE	
Environmental	Canadian Green Building Council - Greater Toronto Chapter - Innovation Awards - Existing Buildings: Operations & Maintenance
ST. JOSEPH'S HEALTH CARE LONDON - SOUTHWEST CENTRE FOR FORENSIC MENTAL HEALTH CARE	
Infrastructure/Construction	London and District Construction Association - Project Excellence Awards, Institutional over $100 million
ST. JOSEPH'S HEALTH CARE LONDON - SPECIALIZED MENTAL HEALTH CARE (PARKWOOD INSTITUTE)	
Environmental	London and District Construction Association - Project Excellence Awards, Environmental Restoration
WATERLOO REGION COURTHOUSE	
Environmental	Building Owners and Managers Association, Greater Toronto Area - Earth Award

2015 2016 Financial Report

Ontario Infrastructure and Lands Corporation

OVERVIEW

Infrastructure Ontario (IO) is a Crown corporation reporting to the Minister of Economic Development, Employment and Infrastructure (Minister) and is classified as an Operational Enterprise Agency in accordance with the Agencies and Appointment Directive. IO is governed by a Board of Directors pursuant to a Memorandum of Understanding (MOU) with the Minister that sets out IO's accountability framework.

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

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

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

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

Commercial Projects leverages private sector partnerships and investments for revenue generation, liability/ cost reduction and efficiency in government services and investments.

Land Development seeks to maximize the value of the provincially owned real estate portfolio with the involvement of the private sector, when IO is directed to take action by the Minister.

IO's business lines are supported by professional staff in Human Resources, Legal Services, Procurement, Business Strategy and Communications, Transaction Finance, Corporate Finance, Treasury, Information Technology and Risk Management.

IO is also the financial manager of the Crown owned and leased real estate portfolio that is the responsibility of the Minister, known as the GREP.

This Management Discussion and Analysis (MD&A) is intended to provide an overview of IO's financial activities for the year ended March 31, 2016, and should be read in conjunction with the financial statements for the year ended March 31, 2016 and related notes.

OPERATING RESULTS

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

MAJOR PROJECTS

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

Major Projects had a deficit of $0.7 million for the period, a favorable variance of $7.2 million compared to the budget deficit of $7.9 million.

REVENUE

Major Projects provides professional services for AFP projects under either cost based or fixed price contracts. For cost based contracts, revenue for project delivery and project transaction fees is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. For fixed price contracts, Major Projects recognizes revenue for project delivery and project transaction fees based on the percentage of completion of internal work, commencing when the project is assigned to Infrastructure Ontario by the Minister through a Letter of Direction (LOD) and ending on completion of the project. Revenue for ancillary costs, included in Recoverable advisory costs on the Financial Statements, is recognized on a cost recovery basis in the period such costs are incurred.

Revenues for the period, excluding recoverable advisory cost revenues were $34.7 million, an unfavorable variance of $4.5 million compared to the budget of $39.2 million, attributable to the following:

- Project delivery fees were $23.5 million for the period, an unfavorable variance of $2.4 million compared to the budget of $25.9 million. This was due to higher forecasted costs to complete on long term projects, based on an updated resource plan. The increase in forecasted costs reduced the relative percentage completion and required a reduction of revenue recognized during the period on a number of projects, including Mackenzie Health and Toronto Regional Courthouse. In a few instances, the forecasted cost on projects decreased, resulting in an increase to the percentage of revenue recognized during the period, including 407 East Phase 1 and Credit Valley Hospital. The net revenue reduction was $2.5 million. In addition, project delivery fees on pipeline projects such as Macdonald Block Retrofit, were higher than budget by $0.1 million.
- Project transaction fees were $11.2 million for the period, $2.1 million unfavorable to the budget of $13.3 million. However, project transaction margin (Project transaction fees net of Project transaction costs) had a $5.8 million favorable variance to budget. This primarily relates to six social projects – Kingston Providence Care Hospital, Milton District Hospital, Peel Memorial Centre, Joseph Brant Hospital, St. Michael's Hospital and McMaster Children's Hospital, for which all transaction costs have been incurred and the remaining fixed price revenue was recognized during the period.
- Recoverable advisory cost revenues were $20.8 million for the period, $52.1 million lower than the budget of $72.9 million. Recoverable advisory costs are the ancillary costs on a project and vary depending on the nature and stage of the project. It is billed on a pass through basis with no impact to surplus/(deficit), and includes the following expenditures:
  - Technical advisors/consultants that assist throughout the life of the project (designers, architects and engineers).
  - Contingencies for unforeseen expenditures and discretionary variations on civil and non-hospital social projects.

The contingent nature of item #2 above is the reason for the large difference between actual and budget for both cost and revenue.

PROGRAM EXPENSES

Program expenses for the period, excluding recoverable advisory costs were $5.4 million, a favorable variance of $7.9 million compared to the budget of $13.3 million, attributable to the following:

- Project transaction costs were $5.4 million for the period, a favorable variance of $7.9 million compared to the budget of $13.3 million. There is a favorable Project transaction margin which is explained in the "Project transaction fees" above.
- Project funding expense of $48 thousand for the period was not budgeted. Project funding expense is interest expense on the Ontario Financing Authority (OFA) credit facility, utilized to fund the AFP projects. Infrastructure Ontario has paid off the credit facility during the period and new projects have a quarterly billing schedule which eliminates the interest component.
- Recoverable advisory costs were $20.8 million for the period, $52.1 million lower than the budget of $72.9 million. Recoverable advisory costs are explained in the "Recoverable advisory cost revenues" above.

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

Major Projects had a deficit of $0.7 million for the period, a decrease of $13.8 million compared to the deficit of $14.5 million in the prior year.

REVENUE

Revenues for the period, excluding recoverable advisory cost revenues were $34.7 million, an increase of $3.5 million compared to $31.2 million in the prior year.

- Project delivery fees were $23.5 million for the period, a decrease of $1.7 million compared to $25.2 million in the prior year. Although the project delivery fees were relatively consistent from year to year, Infrastructure Ontario continues to see a shift in the portfolio mix to include more civil projects. During the year, revenue on civil projects totaled $12.9 million, compared to $7.9 million in the prior year; while revenue on social projects totaled $10.6 million, compared to $17.3 million in the prior year. For the current period, civil and social projects represented 55% and 45% of total Project delivery fees, respectively. This compares to 31% (civil) and 69% (social) in the prior year.
- Project transaction fees were $11.2 million for the period, an increase of $5.2 million compared to $6.0 million in the prior year. The increase is primarily due to staging of projects in addition to $5.8 million of project transaction margin recognized during the current year, compared to a smaller number of projects with transaction margin in the prior period.
- Recoverable advisory cost revenues were $20.8 million for the period, an increase of $1.9 million compared to $18.9 million in the prior year. Recoverable advisory costs vary depending on the nature and stage of the project. Recoverable advisory costs revenues are flow through, offset by recoverable advisory costs, and have no net impact on the surplus/deficit.

PROGRAM EXPENSES

Program expenses for the period, excluding recoverable advisory costs were $5.4 million, a decrease of $8.3 million compared to $13.7 million in the prior year.

- Project transaction costs is $8.3 million lower compared to the prior year. This is due to a $4.3 million loss provision recognized in the prior year for future losses, combined with a reversal of $0.9 million for over accrued provisions in the prior year, where no additional costs are expected and collectibility is reasonable assured. In addition, project transaction costs were $3.1 million lower than prior year due to staging of projects.
- Project funding expense is $123 thousand lower compared to the prior year as newer projects have a quarterly billing schedule which eliminates the interest component.

REAL ESTATE

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

Real Estate had a surplus of $6.3 million for the period, a favorable variance of $7.2 million compared to the budget deficit of $0.9 million.

REVENUE

Revenue for Real Estate for the period was $57.0 million, a favorable variance of $6.0 million compared to the budget of $51.0 million. Revenue includes Management fees and Other income.

- Management fees include the Facility Management fee, Strategic Advisory fee, Project Management fee, revenue from the Hydro Lands transmission corridor program and Post-AFP operations. Management fees were $52.3 million for the period, $1.3 million above budget.
- Other income consists of lease commission rebates from CB Richard Ellis (CBRE) and revenue for services including leasehold asset management planning for Ministries. Other income was $4.7 million for the period, which was not budgeted. During the year, $4.3 million in revenue was recognized related to lease commission rebates. As part of the outsourced CBRE contract, Infrastructure Ontario is entitled to 50% of the brokerage commission earned by CBRE after meeting all associated expenses.

PROGRAM EXPENSES

- Program expenses include sub-contracting fees paid to CBRE who has been contracted by Infrastructure Ontario to provide operational facility management services. Sub-contracting fees for the period were $9.8 million, slightly below budget by $0.1 million.

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

Real Estate had a surplus of $6.3 million for the period, an increase of $6.7 million compared to the deficit of $0.4 million in the prior year.

REVENUE

Revenue for Real Estate for the period was $57.0 million, an increase of $7.7 million compared to $49.3 million in the prior year.

- Management fees in the period were $52.3 million, $3.1 million higher than $49.2 million in the prior year. Facilities Management fee and Strategic Advisory fee are $2.3 million and $0.4 million greater than the prior period respectively, offset by lower Project Management fee of $0.4 million. The remaining difference primarily relates to post AFP operations revenue.
- Other income in the period was $4.7 million, $4.6 million higher than $0.1 million in the prior year. As discussed above, the increase is primarily due to the additional revenue from the CBRE lease commission rebates recognized in the current period.

PROGRAM EXPENSES

Program expenses in the current period is $9.8 million, $0.1 million less than the prior period.

LENDING

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

The Lending Division had a deficit of $4.9 million for the period, an unfavorable variance of $16.2 million compared to the budget surplus of $11.3 million.

REVENUE

Revenue for the period was $165.8 million, $3.2 million favorable to the budget of $162.6 million. Revenue includes interest on loans to eligible borrowers and on investments.

- Loan interest revenue for the period was $151.7 million, $1.8 million unfavorable to the budget of $153.5 million. The unfavorable variance is due to an adjustment of $4.6 million made this year, all attributable to prior years to correct for the unique structure of the Royal Conservatory of Music (RCM) loan approved in 2010, whereby the accrued interest calculation on this loan differs from all other loans within the portfolio, requiring the annual compounding of interest; offset by higher loan interest revenue of $2.8 million due to higher average loan volumes.
- Investment income for the period was $12.6 million, $3.5 million favorable to the budget of $9.1 million. The $3.5 million favorable variance to budget is primarily due to higher interest earned on the liquidity reserve and bank account interest not budgeted.
- Other income includes $1.5 million for penalty income on three loans (Bruyere Continuing Care for breaking a rate lock commitment and Haldimand County Hydro and Woodstock Hydro for early loan prepayments, as they were bought out by Hydro One). These penalties were not budgeted.

PROGRAM EXPENSES

Loan program expenses for the period were $163.6 million, $20.1 million unfavorable compared to the budget of $143.5 million.

- Interest expense for the period was $148.1 million, $4.6 million unfavorable to the budget of $143.5 million primarily due to higher average loan volumes.
- A specific loan valuation allowance of $15.0 million was recognized during the year which was not budgeted. The specific loan valuation allowance relates to one loan, where the borrower advised Infrastructure Ontario that they do not have the capacity to make their next scheduled payment. During fiscal 2016-17, after extensive consultation with MEDEI and approval from Treasury Board/Management Board of Cabinet, IO is restructuring the loan in the form of a $15.0 million write-off, on the condition that the borrower contributes $15.0 million to reduce the loan balance. The restructuring is expected to be complete by September 2016.

In summary, the unfavorable variance of $16.2 million compared to the budget surplus of $11.3 million for the year, is due to the following activities:

	($ millions)
Lower NIM mainly due to lower construction loan volume	$ (1.3)
Higher NIM on liquidity reserve and higher cash balance	2.9
Loan pre-payment penalty	1.5
Loan interest adjustment for RCM	(4.6)
Higher loan valuation allowance	(15.5)
Lower operating expenses	0.8
Deficit variance	**$ (16.2)**

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

The Lending Division had a deficit of $4.9 million for the period, a decrease of $23.5 million compared to the prior year surplus of $18.6 million.

REVENUE

Revenue for the period was $165.8 million, a decrease of $30.2 million compared to $196.0 million in the prior year.

- Loan interest revenue for the period was $151.7 million, a decrease of $22.6 million compared to $174.3 million in the prior year. The decrease primarily relates to the maturity of a liability swap on the $650 million IRB that matured in June - $19.0 million and the RCM interest adjustment of $4.6 million; offset by a higher loan interest revenue of $1.0 million due to higher average loan volumes for the current year.
- Investment income for the period was $12.6 million, $7.6 million lower than prior year of $20.2 million due to a lower investment income of $8.2 million which included a $4.6 million hedge bond gain which was recognized in the prior year, the remaining $3.6 million was due to a decrease on investment yields; offset by $0.6 million interest earned on bank accounts.
- Other income was $1.5 million, related to penalty income earned and consistent with prior year.

PROGRAM EXPENSES

Loan program expenses for the period were $163.6 million, a decrease of $6.8 million compared to $170.4 million in the prior year.

- Interest expense for the period was $148.1 million, $16.6 million lower than the prior year of $164.7 million, primarily attributable to lower costs on the long term debt due to a lower interest rate environment.
- The loan valuation allowance for the period of $15.5 million was $9.8 million higher than the prior year's allowance of $5.7 million. This was mainly due to a $15.0 million specific loan valuation allowance for a loan and $0.5 million general loan valuation allowance on the overall loans receivables.

■ COMMERCIAL PROJECTS

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

Commercial projects had a deficit of $0.2 million for the period, an unfavorable variance of $0.4 million compared to the budget surplus of $0.2 million.

REVENUE

Revenue for Commercial Projects is recognized on a cost recovery basis determined and agreed to at the inception of each project. Revenue for the period, excluding recoverable project transaction fees was $2.7 million, an unfavorable variance of $0.9 million compared to the budget of $3.6 million.

- Project delivery fees revenue for the period was $2.7 million, an unfavorable variance of $0.9 million compared to the budget of $3.6 million due to lower revenues on projects such as Ring of Fire and Ontario Business Information Systems, and delay in delivery of pipeline projects including Alternative Delivery Services Review, Social Impact Bond Initiative and Ministry of Attorney General Banking Modernization; offset by higher revenues on Bruce Power Refurbishment and Ontario Retirement Pension Plan.
- Project transaction fee revenue for the period was $12.7 million. This revenue is a flow through of the project transaction costs under Program expenses, which includes third party advisor costs on the following

projects: Ontario Retirement Pension Plan, Bruce Power Refurbishment, Ring of Fire, MaRS Phase II, Ontario Northlands, Ontario Lottery & Gaming and Social Impact Bond Initiative.

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

Commercial Projects had a deficit of $0.2 million for the period, a decrease of $0.6 million compared to the prior year surplus of $0.4 million.

REVENUE

Revenue for the period, excluding recoverable project transaction fees was $2.7 million, $0.9 million less than the prior year of $3.6 million.

- Project delivery fees revenue for the period was $2.7 million, $0.9 million less than the prior period due to higher revenue recognized on the Mars Phase II project in the prior year.
- Project transaction fee revenue for the period was $12.7 million, $9.4 million increase from the prior year of $3.3 million. The greater revenue is primarily due to the Ontario Retirement Pension Plan, offset by lower revenue from Ontario Northlands and Mars Phase II.

LAND DEVELOPMENT

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

Land Development had a deficit of $1.0 million for the period, an unfavorable variance of $0.2 million compared to the budget deficit of $0.8 million.

REVENUE

Revenue for Land Development is recognized on a cost recovery basis determined and agreed to at the inception of each project. Revenue for the period, excluding recoverable project transaction fees was $1.2 million, an unfavorable variance of $0.1 million compared to the budget of $1.3 million.

- Project delivery fees revenue for the period were $1.2 million, $0.1 million unfavorable to the budget of $1.3 million primarily due to lower revenues on projects such as the Liquor Control Board of Ontario and Metrolinx; offset by higher revenue on Ontario Place.
- Project transaction fee revenue for the period was $8.7 million. This revenue is a flow through of the project transaction costs under Program expenses, which includes third party advisor costs on the Ontario Place Urban Park and Waterfront project.

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

Land Development had a deficit of $1.0 million for the period, an increase of $0.3 million compared to the deficit of $0.7 million in the prior year.

REVENUE

Revenue for the period, excluding recoverable project transaction fees was $1.2 million, $0.3 million less than the prior year of $1.5 million.

- Project delivery fees revenue for the period were $1.2 million, $0.3 million less than prior year's revenue of $1.5 million primarily due to the following projects: the Liquor Control Board of Ontario and Metrolinx.
- Project transaction fee revenue for the period was $8.7 million, $6.5 million greater than prior year's revenue of $2.2 million. This relates to greater revenue recognized from Ontario Place Urban Park and Waterfront project.

CORPORATE OPERATING EXPENSES

YEAR-ENDED MARCH 31, 2016 VS. BUDGET

SALARIES AND BENEFITS

Salary and benefit expenses for the year were $63.8 million, a favorable variance of $2.9 million compared to the budget of $66.7 million. The average number of employees was 483 compared to the budget of 526. The need for resources is evaluated on a case by case basis. Incremental positions are approved on the merits of a business case prepared to support the increase. The average annual compensation per employee for the year, excluding severance expenses and maternity leave was $128 thousand compared to the budget of $126 thousand.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the year were $19.3 million, a favorable variance of $3.2 million compared to the budget of $22.5 million. The favorable variance is mainly due to lower spending on professional and consulting services, and office and administration costs.

YEAR-ENDED MARCH 31, 2016 VS. MARCH 31, 2015

SALARIES AND BENEFITS

Salary and benefit expenses for the year were $63.8 million, $0.3 million lower than prior year's $64.1 million. The average number of employees was 483 compared to the prior year of 503. The average annual compensation per employee for the year, excluding severance expenses and maternity leave was $128 thousand compared to the prior year of $122 thousand.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the year were $19.3 million, $1.1 million lower than prior year's $20.4 million. This is due to lower spending on IT and consulting services.

STATEMENT OF FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include money market investments. At March 31, 2016, cash and cash equivalents were $1,133.3 million, an increase of $48.5 million from a March 31, 2015 balance of $1,084.8 million. The increase is primarily due to funds held in the loan trust account and invested on behalf of lending clients, including the Toronto Community Housing Corporation (TCHC) for $173.6 million and payments received from the Ministry of Health projects for $66.7 million, offset by the utilization of $190.0 million to repay a portion of the IRB that matured on June 1, 2015.

LIQUIDITY RESERVE

Infrastructure Ontario has a $920.0 million liquidity reserve funded by an $800.0 million subordinated 50-year loan from the Province of Ontario and a $120.0 million subordinated 20-year loan from OCWA (refer to note 9 of the financial statements). The liquidity reserve has three purposes:

- Provides credit protection to investors;
- Provides a liquidity backstop for the lending program; and
- Provides a stable long-term capital base to enable Infrastructure Ontario to maintain a good credit rating.

The liquidity reserve is reviewed and monitored in relation to Infrastructure Ontario's loan financing and long term debt structure.

ACCOUNTS RECEIVABLES

At March 31, 2016, accounts receivables were $40.9 million, a decrease of $64.7 million from the March 31, 2015 balance of $105.6 million. The decrease was primarily due to payments received for the following Ministry of Health projects during the period: Halton Health Service Main Campus, Peel Memorial Centre and Kingston Providence Care.

LOANS RECEIVABLES AND DEBT – LOAN PROGRAM

At March 31, 2016, loans receivables were $5,225.2 million, an increase of $427.9 million from $4,797.3 million at March 31, 2015. Loans issued in the year were $771.8 million and amortization of concessionary loans was $7.3 million, these were offset by $335.7 million loan repayments and $15.5 million of loan valuation allowance.

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

- Repaid $650.0 million on the matured IRB by issuing a 10-year $460.0 million Floating Rate Note to the Province under the Long-term Credit Facility and settling the balance in cash;
- Borrowed an additional $796.7 million under the Long-term Credit Facility to fund long term loans;
- Repaid $250.0 million on the Short-term Credit Facility to the Province of Ontario;
- Repaid $125.0 million on the OIPC/OILC bonds to the Province of Ontario; and
- Repaid $40.4 million on the Ontario Immigrant Investor Corporation (OIIC) loans.

During the year, IO started funding its loans on a back to back basis, directly from the Province under the Long-term Credit facility. The new debt structure mirrors the underlying loans they fund and have similar terms including the maturity, payment frequency and type of amortization. The new funding format will create a perfect match between the assets and liabilities and eliminate the need to use derivatives to hedge interest rate risks.

LOAN VALUATION ALLOWANCE

The industry risk weighted general allowance includes the accumulated provisions for losses of the existing loan portfolio which are considered to be likely in the future, but are not yet known and cannot be determined for any specific loan. The industry risk weighted general allowance is computed using credit risk models that consider both the probability of default (loss frequency), and loss severity, as determined by an assessment of business and economic conditions, historical and expected industry loss experience, loan portfolio composition, and other relevant indicators. The general valuation allowance is based on the default rate for the loans using Moody's 'Non-government Organization default and loan loss rates' with adjustments made by management, where deemed appropriate, considering the specific risks of Infrastructure Ontario's loans. The total general loan allowance is $7.3 million as at March 31, 2016 ($6.8 million as at March 31, 2015).

Specific allowances consist of provisions for probable identifiable losses on existing loans. At year-end, management recognized a $15.0 million loan provision for one loan as explained in the Lending section above. The total specific loan allowance balance was $24.9 million as at March 31, 2016 ($9.9 million as at March 31, 2015).

PROJECTS RECEIVABLES

At March 31, 2016, projects receivables were $45.8 million, a decrease of $18.4 compared to $64.2 million at March 31, 2015 due to invoicing the IO project delivery fee and transaction fees on a number of projects during the year, the largest being Humber River Hospital ($17.7 million) and St. Joseph's Parkwood Mental Health ($10.7 million), offset by a total of $10.0 million fees yet to be billed on projects such as York Central Hospital and William Osler Health. The contract terms on these projects do not allow for billing until substantial completion is reached.

INVESTMENTS

At March 31, 2016, investments were $177.5 million, a decrease of $37.7 million from a March 31, 2015 balance of $215.2 million. The decrease relates to the sale of investments to fund loans, prior to entering into back to back loan arrangements with the OFA. The balance will be utilized on future debt repayments.

DERIVATIVES

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. Infrastructure Ontario hedges through interest rate swaps with the OFA, agreeing to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Interest rate swaps allow Infrastructure Ontario to offset its existing loan receivables and debt obligations and thereby effectively convert them into instruments with terms that minimize the Agency's interest rate risk exposure. Infrastructure Ontario has swapped certain of its fixed rate loan receivable and fixed rate debt portfolio into floating rate instruments.

ACCOUNTS PAYABLES

At March 31, 2016, accounts payables were $6.1 million, a decrease of $1.6 million from a March 31, 2015 balance of $7.7 million. The current outstanding balance includes the following: $0.7 million for the CBRE management fee and $5.1 million for HST.

ACCRUED LIABILITIES

At March 31, 2016, accrued liabilities were $27.7 million, a decrease of $6.9 million from March 31, 2015 balance of $34.6 million. The current outstanding balance includes the following: $15.7 million for corporate accruals (salaries/benefits and vacation), $12.0 million for project costs accruals (advisory).

LIABILITIES HELD IN TRUST

At March 31, 2016, liabilities held in trust were $248.3 million, an increase of $183.5 million from March 31, 2015 balance of $64.8 million. The increase is primarily due to funds held in the loan trust account and invested on behalf of lending clients, including TCHC for $173.6 million in addition to funds received and held in trust for substantial completion and variation payments owing to Project Co. on various major projects, the increase being $9.8 million since March 31, 2015.

DEFERRED REVENUE

Based on agreements with clients, Infrastructure Ontario was paid project costs based on a payment schedule. Some amounts are reported as 'Deferred revenue' and are recognized into revenue based on the revenue recognition policy. At March 31, 2016, deferred revenue was $16.8 million, a decrease of $3.1 million from a March 31, 2015 balance of $19.9 million due to the timing of invoicing on certain projects relative to costs incurred to date.

OFA CREDIT FACILITY

The OFA credit facility funds the working capital requirements of the AFP program. At March 31, 2016, Infrastructure Ontario had no amount outstanding on the credit facility, as the $10.0 million owing at the beginning of the year was repaid on July 27, 2015.

2015 2016 Financial Statements

For the years ended March 31, 2016 and 2015

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June 28, 2016

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, 2016 and the statements of operations and accumulated surplus, re-measurement gains and losses, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
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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, 2016 and the results of its operations, its re-measurement gains and losses, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Infrastructure Ontario – Statement of Financial Position

As at March 31 (in thousands of dollars)

		March 31, 2016	March 31, 2015 *(note 21)*
Financial assets			
Cash and cash equivalents (Note 2)	$	1,133,337	1,084,827
Accounts receivables (Note 3)	$	40,900	105,562
Interest receivable	$	64,721	63,966
Investment income receivable	$	1,851	2,173
Loans receivables (Note 4)	$	5,225,176	4,797,337
Derivatives (Note 5)	$	406,576	357,444
Projects receivables (Note 6)	$	45,843	64,203
Investments (Note 7)	$	177,505	215,211
	$	**7,095,909**	**6,690,723**
Liabilities			
Accounts payables	$	6,111	7,695
Accrued liabilities	$	27,668	34,595
Liabilities held in trust (Note 18)	$	248,258	64,812
Interest payable	$	73,892	72,698
Derivatives (Note 5)	$	554,354	489,505
Deferred revenue		16,839	19,891
OFA credit facility (Note 8)	$	-	10,000
Debt – loan program (Note 9)	$	6,144,550	5,952,052
	$	**7,071,672**	**6,651,248**
Net financial assets	$	24,237	39,475
Non-financial assets			
Tangible capital assets (Note 10)	$	3,042	4,021
	$	**27,279**	**43,496**
Accumulated surplus	$	175,057	175,557
Accumulated re-measurement	$	(147,778)	(132,061)
	$	**27,279**	**43,496**

Contingencies (Note 16)

Commitments (Note 17)

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

Signed by

Board Chair and Director, Audit Committee

Infrastructure Ontario – Statement of Operations and Accumulated Surplus

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

		2016 Budget *(unaudited)*	2016	2015 *(note 20)*
Revenue				
Interest revenue (Note 11)	$	153,479	151,659	174,254
Investment income (Note 11)	$	9,122	12,631	20,270
Project delivery fees	$	30,825	27,417	30,285
Project transaction fees	$	13,279	32,508	11,439
Management fees	$	51,016	52,311	49,230
Recoverable advisory costs	$	72,971	20,803	18,878
Other income	$	-	6,192	1,553
	$	**330,692**	**303,521**	**305,909**
Expenses				
Salaries and benefits	$	66,729	63,758	64,081
General and administration (Note 12)	$	22,527	19,311	20,440
Program Expenses	$			
Project transaction costs	$	13,279	26,701	18,746
Recoverable advisory costs	$	72,971	20,803	18,878
Interest expense (Note 11)	$	143,499	148,127	164,687
Loan valuation allowance	$	-	15,492	5,686
Sub-contracting fees	$	9,888	9,781	9,906
Project funding expenses	$	-	48	171
Total program expenses	**$**	**239,637**	**220,952**	**218,074**
	$	**328,893**	**304,021**	**302,595**
Surplus	$	1,799	(500)	3,314
Accumulated surplus, beginning of year	**$**	**175,557**	**175,557**	**172,243**
Accumulated surplus, end of year	**$**	**177,356**	**175,057**	**175,557**

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

Infrastructure Ontario – Statement of Re-Measurement Gains and Losses

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

		2016	2015
Accumulated re-measurement losses, beginning of year	**$**	**(132,061)**	**(35,772)**
Realized losses – reclassified to the Statement of Operations	$	38,907	22,547
Re-measurement gains/(losses)	$	(54,624)	(118,836)
Net re-measurement gains/(losses) in the year	$	(15,717)	(96,289)
Accumulated re-measurement losses, end of year	**$**	**(147,778)**	**(132,061)**

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

Infrastructure Ontario – Statement of Changes In Net Financial Assets

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

		2016	2015
Surplus	$	(500)	3,314
Acquisition of tangible capital assets	$	(958)	(661)
Amortization of tangible capital assets	$	1,937	2,005
Net re-measurement gains/(losses) in the year	$	(15,717)	(96,289)
Net change in net financial assets	$	(15,238)	(91,631)
Net financial assets at beginning of year	$	39,475	131,106
Net financial assets at end of year	**$**	**24,237**	**39,475**

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

Infrastructure Ontario – Statement of Cash Flows

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

		2016	2015
Operating activities			
Net surplus	$	(500)	3,314
Items not requiring a current cash outlay:			
Loan valuation allowance	$	15,492	5,686
Amortization of deferred concession costs	$	(7,327)	(8,206)
Amortization of tangible capital assets	$	1,937	2,005
	$	**9,602**	**2,799**
Changes in non-cash working capital items:			
Decrease in accounts receivables	$	64,662	46,886
Increase in interest receivable	$	(755)	(4,928)
Decrease in projects receivables	$	18,360	43,806
Decrease in accounts payables	$	(1,584)	(62,347)
(Decrease)/increase in accrued liabilities	$	(6,927)	9,756
Increase in liabilities held in trust	$	183,446	22,412
(Decrease)/increase in deferred revenue	$	(3,052)	13,976
Cash provided by operating activities	**$**	**263,752**	**72,360**
Capital activities			
Acquisition of tangible capital assets	$	(958)	(661)
Cash used in capital activities	**$**	**(958)**	**(661)**
Investing activities			
Decrease/(increase) in investment income receivable	$	322	(254)
Purchase of investments	$	-	(2,181,797)
Proceeds from disposition of investments	$	37,706	2,192,503
Issuance of loans receivables	$	(771,786)	(586,697)
Loan repayments	$	335,782	594,677
Cash (used in)/provided by investing activities	**$**	**(397,976)**	**18,432**
Financing activities			
Increase in interest payable	$	1,194	13,476
Repayment of OFA credit facility	$	(10,000)	(15,000)
Debt issuances	$	3,485,786	2,970,630
Debt repayments	$	(3,293,288)	(2,761,731)
Cash provided by financing activities	**$**	**183,692**	**207,375**
Net increase in cash and cash equivalents	$	48,510	297,506
Cash and cash equivalents, beginning of year	$	1,084,827	787,321
Cash and cash equivalents, end of year	**$**	**1,133,337**	**1,084,827**

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

NATURE OF THE CORPORATION

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

The mandate of Infrastructure Ontario includes the following:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

MANAGEMENT ESTIMATES

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

Key areas where management has made estimates are in the percentage of completion for the determination of revenue from project delivery fees, the loan portfolio valuation allowance and the fair value of derivatives.

Actual results could differ from those and other estimates, the impact of which would be recorded in future periods.

FINANCIAL INSTRUMENTS

Infrastructure Ontario's financial assets include cash and cash equivalents, accounts receivables, interest receivable, investment income receivable, loans receivables, derivatives, projects receivables, and investments. Infrastructure Ontario's financial liabilities include accounts payables, accrued liabilities, interest payable, derivatives, Ontario Financing Authority (OFA) credit facility, and the debt supporting the loan program.

Initial recognition and measurement

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

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

Transaction costs for financial instruments measured at cost or amortized cost are added to or netted against the carrying value of the financial asset or financial liability, respectively. Transaction costs for financial instruments measured at fair value are expensed immediately in the statement of operations and accumulated surplus.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

Subsequent measurement

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

i. Financial instruments at fair value

Financial instruments at fair value are re-measured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the statement of re-measurement gains and losses and are subsequently reclassified to the statement of operations upon disposal or settlement.

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

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

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

ii. *Financial instruments at cost or amortized cost*

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

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

Impairment

i. *Loss in value of an investment (not quoted in an active market)*

A writedown is recognized in the Statement of Operations and Accumulated Surplus when there has been a loss in the value of the investment considered as an 'other than temporary' loss. A loss is considered 'other than temporary' when the carrying value of the investment exceeds its actual value for a prolonged period of time. If the actual value of the portfolio investment subsequently increases, the writedown to the statement of operations is not reversed.

ii. *Loans receivables impairment*

A loan valuation allowance is established against the loan portfolio after management's review of existing economic, industry and portfolio conditions across the different loan segments. The valuation allowance is underpinned by a third party 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 valuation allowance is also established in instances of known borrower credit deterioration on the expected non-recoverable portion of the loan receivable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on deposit and highly liquid investments with a maturity greater than three months from the date of acquisition if the financial asset can be readily convertible to cash.

DERIVATIVE FINANCIAL INSTRUMENTS

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

Any unrealized gains or losses arising from changes in the fair value of derivatives are recorded in the statement of re-measurement gains and losses and are subsequently re-classified to the statement of operations and accumulated surplus upon settlement.

TANGIBLE CAPITAL ASSETS

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

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

IMPAIRMENT OF TANGIBLE CAPITAL ASSETS

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

REVENUE RECOGNITION

Interest revenue and investment income

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

Project delivery fees and project transaction fees

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

Management fees and recoverable advisory costs

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

2. CASH AND CASH EQUIVALENTS

	($'000)	2016	2015
Cash	$	631,653	423,863
Cash equivalents	$	501,684	660,964
	$	**1,133,337**	**1,084,827**

Cash includes funds held in trust for Infrastructure Ontario's lending clients of $220.3 million (2015 - $46.7 million) and project construction consortiums of $27.9 million (2015 - $18.1 million), detailed further in Note 18 – Funds Held in Trust.

Cash equivalents include money market investments and short term fixed income instruments recorded at cost, which closely approximate fair value. At March 31, 2016, the interest rates on these investments ranged from 0.66% to 0.84% (2015 – 0.69% to 1.06%).

3. ACCOUNTS RECEIVABLES

	($'000)	2016	2015
Trade accounts receivable	$	38,136	100,671
HST receivable	$	2,764	4,891
	$	**40,900**	**105,562**

4. LOANS RECEIVABLES

	($'000)	2016	Interest %	2015	Interest %
Construction advances					
Infrastructure renewal loan program	$	413,515		544,952	
Debentures receivables					
Concessionary loan program - Maturity terms:					
6 to 10 years	$	24,971	2.08-2.71	41,267	2.06-2.71
11 to 15 years	$	30,687	2.28-2.67	36,686	2.28-2.67
16 to 20 years	$	257,059	2.36-2.95	279,784	2.36-2.95
Greater than 20 years	$	61,337	2.52-3.05	64,120	2.52-3.05
	$	**374,054**		**421,857**	
Infrastructure renewal loan program - Maturity terms:					
1 to 5 years	$	98,450	1.18-4.55	90,429	1.18-3.97
6 to 10 years	$	595,603	1.52-5.51	564,874	1.86-5.51
11 to 15 years	$	583,955	2.24-5.26	614,655	2.59-5.26
16 to 20 years	$	1,268,622	2.71-5.89	1,073,929	2.77-5.89
Greater than 20 years	$	1,966,282	2.77-5.91	1,553,781	2.77-5.91
	$	**4,512,912**		**3,897,668**	
Total	**$**	**5,300,481**		**4,864,477**	
Deferred costs on concessionary loans					
Deferred costs, beginning of year	$	(50,410)		(58,616)	
Amortization of concession costs	$	7,327		8,206	
Deferred costs, end of year	**$**	**(43,083)**		**(50,410)**	
Loan valuation allowance	$	(32,222)		(16,730)	
Loans receivables	**$**	**5,225,176**		**4,797,337**	

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

Debentures receivables are due from municipalities, other public sector clients and not for profit entities, with loan maturity terms ranging from four to 40 years since inception.

Infrastructure Ontario manages its credit risk with the current loan portfolio through various provisions in the loan agreements. The Agency has an intercept mechanism with the Province, which allows for funds owing to a borrower 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 is required to provide security and in some cases, provide loan insurance.

The loan valuation allowance is based on an assessment of existing economic, industry and portfolio conditions which may indicate that valuation is impaired or losses incurred. Infrastructure Ontario has a loan valuation allowance of $32.2 million (2015 - $16.7 million) that includes a loan loss provision to one borrower of $15.0 million in the current year.

5. DERIVATIVES

Infrastructure Ontario operates within strict risk 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 derivatives. Infrastructure Ontario does not use derivatives for speculative purposes, and no new derivative contracts have been initiated since Infrastructure Ontario entered into back to back loans with the OFA in April 2015.

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

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2016, based on the notional amounts of the contracts. The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Statement of Financial Position. They represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows of such instruments.

	($'000)	Maturity: Within the current fiscal Year	2 to 5 Years	6 to 10 Years	11 to 15 Years	Over 15 Years	Total Notional Value
Debt	$	153,198	1,177,600	744,482	-	852,857	2,928,137
Loans receivables	$	276,642	1,043,064	1,182,120	679,500	866,389	4,047,715

Derivatives are recorded at fair value as at March 31, 2016 resulting in derivative assets of $406.6 million, derivative liabilities of $554.4 million and accumulated unrealized losses on the statement of re-measurement gains and losses of $147.8 million (2015 – derivative assets of $357.4 million, derivative liabilities of $489.5 million and accumulated unrealized losses on the statement of re-measurement gains and losses of $132.1 million). Fair values for both were determined using Level 2 basis of valuation as defined in Note 1.

All, except one, interest rate swap agreements are with the OFA, (an entity also under the control of the Government of Ontario) as the contracting party. The one exception is a swap currently held with MaRS, a former borrower of the Agency. The swap transaction was executed to offer interest rate and cash flow stability to MaRS against the variable rate loan it had borrowed from Infrastructure Ontario. The loan was transferred to the Ministry of Research and Innovation (MRI) on March 31, 2015. The swap will remain with Infrastructure Ontario until it matures on September 30, 2019.

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

6. PROJECTS RECEIVABLES

Project receivables are amounts which have been recognized as revenue or expense recoveries either on a percentage of completion method or when the recoverable expenses were incurred, but have not yet been invoiced. Certain projects receivables, including interest costs to finance the receivables, will not be invoiced until the completion of the project. Projects receivables are due from various Provincial Ministries, Ontario Crown Agencies and other public sector organizations.

7. INVESTMENTS

Investments consist of bonds utilized as economic hedging instruments to mitigate some of the interest rate risk between when funds are borrowed and lent. These investments are carried at amortized cost. As at March 31, 2016 the interest rates on these investments ranged from 2.10% to 4.40% (2015 – 2.10% to 4.40%) and maturities from September 2018 to June 2024.

8. OFA CREDIT FACILITY

OFA provided Infrastructure Ontario with a subordinated revolving credit facility of up to $200.0 million to provide working capital for project management and project delivery programs. Advances are to be repaid on completion of individual projects. On July 27, 2015, the outstanding balance of $10.0 million was repaid. As at March 31, 2016, the full balance of the credit facility remains undrawn.

9. DEBT – LOAN PROGRAM

($'000)		2016	2015
Capital Funding:			
Province of Ontario loan	$	799,681	799,681
Ontario Clean Water Agency loan	$	120,000	120,000
	$	**919,681**	**919,681**

($'000)		2016	2015
Capital Funding:			
Short-term Credit Facility	$	485,000	735,000
Long-term Credit Facility	$	1,256,683	-
Infrastructure Renewal Bonds	$	300,000	950,000
OIPC/OILC bonds and FRNs	$	2,655,000	2,780,000
Ontario Immigrant Investor Corporation loans	$	535,924	576,342
	$	**5,232,607**	**5,041,342**
Debt issue costs	$	(7,738)	(8,971)
	$	**6,144,550**	**5,952,052**

PROVINCE OF ONTARIO LOAN

The Province provides Infrastructure Ontario with a 50 year subordinated loan of approximately $800 million in exchange for a promissory note that matures on March 31, 2053. The interest on the note is reset quarterly at the Province's three-month Treasury bill rate and payable quarterly. On March 31, 2016, interest on the note was reset at 0.62% (2015 – 0.69%).

ONTARIO CLEAN WATER AGENCY LOAN

The Ontario Clean Water Agency (OCWA), an agency of the Province, provides a twenty-year subordinated loan of $120 million to Infrastructure Ontario in exchange for a promissory note that matures on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the one month Canadian Dollar Offered Rate (CDOR) payable quarterly. On March 31, 2016, interest on the note was reset at 0.87% (2015 – 0.98%).

Together the Province of Ontario and OCWA loans provide Infrastructure Ontario with its liquidity reserve which provides: (i) credit protection to investors of unsubordinated debt such as Infrastructure Renewal Bonds and previously the 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. Infrastructure Ontario invests the funds in liquid short term fixed income securities.

SHORT-TERM CREDIT FACILITY

Effective May 2014, Infrastructure Ontario issues short term notes under a short term revolving credit facility to fund its short term construction loans. The revolving credit facility with the Province of Ontario is authorized to issue a maximum of $900 million for terms ranging from three months to one year. As at March 31, 2016, maturities ranged from April 1, 2016 to June 15, 2016, while interest on the notes ranged from 0.60% to 0.74% (2015 – 0.76% to 1.12%) .

LONG-TERM CREDIT FACILITY

In April 2015, Infrastructure Ontario began funding long term loans on a back to back basis directly with the Province through a long term non-revolving credit facility. The new debt structures mirror the underlying loans they fund and have similar terms including maturity, payment frequency and type of amortization. The new funding structure will create a perfect match between the assets and liabilities and eliminate the need to use derivatives to hedge interest rate risks. The long term credit facility is authorized to issue a maximum of $3 billion in non-revolving long term credit. As at March 31, 2016, maturities on the back to back loans ranged from May 15, 2019 to March 15, 2046 and interest rates ranged from 1.21% to 3.58%.

Infrastructure Ontario utilized the long term credit facility to refinance part of the Infrastructure Renewal Bond (IRB) that matured in June 2015.

INFRASTRUCTURE RENEWAL BONDS

Infrastructure Ontario assumed $650 million of Infrastructure Renewal Bonds, on July 17, 2006, the date of amalgamation with Ontario Strategic Infrastructure Financing Authority (OSIFA). The bonds were repaid 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.

OIPC / OILC BONDS AND FRNS

Infrastructure Ontario issued Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds and Floating Rate Notes (FRN) to the Province for the purpose of funding its loan program. The bonds and FRN's are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario.

As at March 31, 2016, interest on fixed rate bonds ranged from 2.02% to 4.96% (2015 – 2.02% to 4.96%) per annum and maturities ranged from September 2016 to June 2045. Interest is paid semi-annually on these bonds until maturity. The FRN's bear interest from three month CDOR plus 16 basis points to three month CDOR plus 22 basis points and the maturity of the notes is June 30, 2018. Interest is reset and paid quarterly until the maturity of the FRN's.

ONTARIO IMMIGRANT INVESTOR CORPORATION LOANS

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province, 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.

As at March 31, 2016, interest on fixed rate bonds ranged between 1.86% and 2.99% (2015 –1.86% to 3.05%) compounded semi-annually and paid on maturity. Maturities ranged from April 2016 to July 2019. Interest on bonds bearing a variable rate of interest is reset and compounded quarterly with a floor rate of 1.55% (2015 –1.55%) per annum. Maturities ranged from October 2016 to January 2019.

10. TANGIBLE CAPITAL ASSETS

		Year ended March 31, 2016				
($'000,000)		Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost						
Balance, April 1, 2015	$	16,328	4,153	1,984	9,828	32,293
Additions	$	958	–	–	–	958
Balance, March 31, 2016	$	17,286	4,153	1,984	9,828	33,251
Accumulated amortization						
Balance, April 1, 2015	$	14,758	4,153	1,871	7,490	28,272
Additions	$	1,122	–	78	737	1,937
Balance, March 31, 2016	$	15,880	4,153	1,949	8,227	30,209
Net book value – March 31, 2016	**$**	**1,406**	**–**	**35**	**1,601**	**3,042**

		Year ended March 31, 2015				
($'000,000)		Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost						
Balance, April 1, 2014	$	15,667	4,153	1,984	9,828	31,632
Additions	$	661	–	–	–	661
Balance, March 31, 2015	$	16,328	4,153	1,984	9,828	32,293
Accumulated amortization						
Balance, April 1, 2014	$	13,672	4,153	1,780	6,662	26,267
Amortization	$	1,086	–	91	828	2,005
Balance, March 31, 2015	$	14,758	4,153	1,871	7,490	28,272
Net book value – March 31, 2016	**$**	**1,570**	**–**	**113**	**2,338**	**4,021**

11. INTEREST INCOME (EXPENSE) AND INVESTMENT INCOME

	($'000)	2016	2015
Interest revenue	$	151,659	174,254
Investment income	$	12,631	20,270
Interest expense	$	(148,127)	(164,687)
Other income (Lending)	$	1,460	1,467
Net interest margin	**$**	**17,623**	**31,304**

The breakdown of interest expense on debt is as follows:

	($'000)	2016	2015
Capital funding interest	$	5,251	7,855
Province of Ontario loan	$	1,011	1,415
Ontario Clean Water Agency loan	**$**	**6,262**	**9,270**

	($'000)	2016	2015
Program funding interest			
Commercial Paper	$	-	1,796
Short-term Credit Facility	$	4,155	5,391
Long-term Credit Facility	$	16,956	-
Infrastructure Renewal Bonds	$	19,000	44,000
OIPC/OILC Bonds and FRNs	$	89,159	91,695
Ontario Immigrant Investor Corporation loans	$	12,595	12,535
	$	**141,865**	**155,417**
Total interest expense	**$**	**148,127**	**164,687**

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

	($'000)	2016	2015
Cash interest received	$	160,296	197,752
Cash interest paid	$	(148,731)	(171,677)
	$	**11,565**	**26,075**
Investment income and non-cash interest			
Gain on sale of investments	$	-	4,586
Amortization of loan concession costs (Note 4)	$	7,327	8,206
Other non-cash interest	$	(1,269)	(7,563)
Net interest margin	**$**	**17,623**	**31,304**

Other non-cash interest includes net interest accrued (revenue and expense), and the amortization of debt issue costs and premiums/discounts on purchase of investments.

12. GENERAL AND ADMINISTRATION EXPENSES

	($'000)	2016 Budget *(unaudited)*	2016	2015
Communications	$	469	213	233
Information technology	$	7,088	6,662	7,246
Office and administration	$	1,904	1,231	1,371
Premises		5,960	5,455	5,528
Professional and consulting services	$	5,306	3,813	4,057
Amortization	$	1,800	1,937	2,005
	$	**22,527**	**19,311**	**20,440**

13. RELATED PARTY TRANSACTIONS

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

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

1. Project delivery fees and project transaction fees

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

2. Management fees

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

3. Recoverable advisory costs

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

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

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. The contribution to the pension plan of $0.4 million for the year ended March 31, 2016 (2015 – $0.5 million) is based on formulas set by the Ontario Pension Board and has been expensed. The cost of post-retirement, non-pension employee benefits for these employees is paid by the Ministry of Government Services and is not included in the financial statements.

The Agency provides a defined contribution pension plan for all other full-time employees. The Agency's contribution to this plan for the year ended March 31, 2016 was $2.9 million (2015 – $2.8 million).

15. RISK MANAGEMENT

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

CREDIT RISK

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

Credit risk – Loans receivables

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

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

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

Infrastructure Ontario's maximum exposure to credit risk on loans receivables, excluding derivatives and without taking into account any collateral held or other credit enhancements, as at March 31, 2016 was $5,225.2 million.

Infrastructure Ontario classifies and manages its loans by tiers. Tier one borrowers have a tax base and/or receive provincial transfers which provide a strong source of debt repayment. Tier two borrowers are in sectors that are either regulated or entitled to government based revenue contracts and therefore have a stable source of debt repayment. Tier three borrowers are organizations dependent on self generated revenues either by market-set prices or donations and fund raising. The profile of the loans receivables at March 31, 2016 is as follows:

($'000)		Gross Outstanding	Loan Valuation Allowance	2016 Net	2015 Net
Tier 1					
Municipalities	$	3,559,873			
Social Housing (with Municipal guarantee)	$	534,849			
Universities	$	170,018			
Local Service Boards	$	191			
	$	**4,264,931**	**-**	**4,264,931**	**3,765,588**
Tier 2					
Local Distribution Corps.	$	266,205			
Long Term Care	$	172,958			
Affordable Housing (CMHC)	$	123,540			
Affordable Housing (no CMHC)	$	139,214			
Social Housing (no Municipal guarantee)	$	5,147			
Aboriginal Health Access Centres	$	3,547			
Community Health & Social Service Hubs	$	20,945			
	$	**731,556**	**(4,703)**	**726,853**	**775,773**
Tier 3					
Power Generators	$	136,519			
District Energy	$	28,037			
Municipal Corporations (Other)	$	33,407			
Beneficial Entities (Arts Training, etc.)	$	105,133			
Sports and Recreation	$	898			
	$	**303,994**	**(27,519)**	**276,475**	**306,386**
Deferred costs on concessionary loans					
Deferred costs, beginning of year	$	(50,410)			
Amortization of concession costs	$	7,327			
Deferred costs, end of period	**$**	**(43,083)**	**-**	**(43,083)**	**(50,410)**
Loans receivables	**$**	**5,257,398**	**(32,222)**	**5,225,176**	**4,797,337**

Collateral

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

Impairment

The loan valuation allowance is underpinned by a third party 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 loan valuation allowance, including sensitivity to risk ratings, industry sectors, portfolio quality, business mix, and economic and credit market condition.

Credit risk – Cash, Receivables and Investments

Infrastructure Ontario's maximum exposure to credit risk on the cash, cash equivalents, receivables, derivative assets and investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2016 was:

	($'000)	2016	Past Due > 90 days
Cash and cash equivalents	$	1,133,337	-
Accounts receivables	$	40,900	24,853
Interest receivable	$	64,721	-
Investment income receivable	$	1,851	-
Projects receivables	$	45,843	-
Derivative assets	$	406,576	-
Investments	$	177,505	-
	$	**1,870,733**	**24,853**

There is no valuation allowance provided against cash and cash equivalents, receivables, derivative assets and investments as at March 31, 2016.

MARKET RISK

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

INTEREST RATE RISK

Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Agency was susceptible to interest rate risk when the re-pricing of assets was not aligned with the re-pricing of liabilities. As a result of entering into back to back loan arrangements with the OFA, this re-pricing mismatch has been eliminated.

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

SENSITIVITY TO VARIATIONS IN INTEREST RATES

The sensitivity of a +/-1% change in the interest rate would have $1.9 million / ($1.9 million) impact on the annual surplus (deficit); a +/-1 basis point (bp) change in the interest rate would have $1.0 million / ($1.0 million) impact on the accumulated re-measurement gains and losses.

LIQUIDITY RISK

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

Infrastructure Ontario's Borrowing By-laws are approved by the Board of Directors and the Minister of Economic Development, Employment and Infrastructure as well as the Minister of Finance. Borrowing is reviewed with the Credit and Real Estate Committee of the Board on a quarterly basis. All borrowing is made with prudent consideration of interest rate and liquidity risks and complies with the Asset-Liability Management Policy. OFA coordinates and executes all borrowing activities. Infrastructure Ontario borrows directly from the Province for its long-term funding needs through the OFA.

The following illustrates the maturities of contracted obligations as at March 31, 2016:

	($'000)	Within 1 year	1 to 5 years	1 to 5 years	Total
Accounts payables	$	6,111	-	-	6,111
Accrued liabilities	$	27,668	-	-	27,668
Liabilities held in trust	$	248,258			248,258
Interest payable	$	73,892	-	-	73,892
Derivative liabilities	$	-	10,570	543,784	554,354
Debt – loan program	$	710,340	1,531,637	3,910,311	6,152,288
Unamortized debt issuance costs	$				(7,738)
Undisbursed loan commitments	$				(414,030)
Total financial liabilities	**$**	**1,066,269**	**1,542,207**	**4,454,095**	**6,640,803**

16. CONTINGENCIES

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

17. COMMITMENTS

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

Fiscal year	($'000)	Amount
2016 – 2017	$	4,034
2017 – 2018	$	4,652
2018 – 2019	$	5,153
2019 – 2020	$	5,235
2020 – 2021	$	5,320
	$	**24,394**

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 the Ministry. The accounts relate directly to the operations of the Ministry's General Real Estate Portfolio, for which the Agency is the financial manager pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011. The funds held in trust for the Ministry as at March 31, 2016 were $227.8 million (2015 – $225.4 million), and are not recorded in these financial statements.

Infrastructure Ontario is required by the Canadian Mortgage and Housing Corporation (CMHC) to collect property taxes and reserve funds as a condition of providing affordable housing loans. As part of the CMHC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. As at March 31, 2016, the funds under administration were $220.3 million (2015 – $46.7 million).

Infrastructure Ontario maintains a project trust general ledger account to record funds received from Ministries and payable to project construction consortiums related to project substantial completion payments, interim payments, as well as payments received for variations, furniture, fixtures and equipment. Variations are changes to scope agreed to after the initial contract has been executed – also called contract change orders. All the above payments are paid directly by the sponsoring Ministries, but flow through Infrastructure Ontario. As at March 31, 2016, Infrastructure Ontario held $27.9 million (2015 – $18.1 million) in its project trust general ledger account.

19. SEGMENTED INFORMATION

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

($'000)		For the year ended March 31, 2016					
		Major Projects	Real Estate	Lending	Commercial Projects	Land Development	Total
Revenues							
Interest revenue	$	-	-	151,659	-	-	151,659
Investment income	$	-	-	12,631	-	-	12,631
Project delivery fees	$	23,475	-	-	2,739	1,203	27,417
Project transaction fees	$	11,177	-	-	12,668	8,663	32,508
Management fees	$	-	52,311	-	-		52,311
Recoverable advisory costs	$	20,803	-	-	-	-	20,803
Other income	$	-	4,732	1,460	-	-	6,192
	$	**55,455**	**57,043**	**165,750**	**15,407**	**9,866**	**303,521**
Expenses							
Salaries and benefits	$	22,737	32,899	4,375	2,214	1,533	63,758
General and administration	$	7,231	8,030	2,706	707	637	19,311
Program expenses							
Project transaction cost	$	5,370	-	-	12,668	8,663	26,701
Recoverable advisory costs	$	20,803	-	-	-	-	20,803
Interest expense	$	-	-	148,127	-	-	148,127
Loan valuation allowance	$	-	-	15,492	-	-	15,492
Sub-contracting fees	$	-	9,781	-	-	-	9,781
Project funding expenses	$	48	-	-	-	-	48
Total program expenses	**$**	**26,221**	**9,781**	**163,619**	**12,668**	**8,663**	**220,952**
	$	**56,189**	**50,710**	**170,700**	**15,589**	**10,833**	**304,021**
Surplus/(deficit)	**$**	**(734)**	**6,333**	**(4,950)**	**(182)**	**(967)**	**(500)**

		For the year ended March 31 2016 - Budget					
($'000)		Major Projects	Real Estate	Lending	Commercial Projects	Land Development	Total
Revenues							
Interest revenue	$	-	-	153,479	-	-	153,479
Investment income	$	-	-	9,122	-	-	9,122
Project delivery fees	$	25,956	-	-	3,586	1,283	30,825
Project transaction fees	$	13,279	-	-	-	-	13,279
Management fees	$	-	51,016	-	-	-	51,016
Recoverable advisory costs	$	72,971	-	-	-	-	72,971
Other income	$	-	-	-	-	-	-
	$	**112,206**	**51,016**	**162,601**	**3,586**	**1,283**	**330,692**
Expenses							
Salaries and benefits	$	25,918	32,279	4,657	2,505	1,370	66,729
General and administration	$	7,980	9,756	3,175	904	712	22,527
Program expenses							
Project transaction cost	$	13,279	-	-	-	-	13,279
Recoverable advisory costs	$	72,971	-	-	-	-	72,971
Interest expense	$	-	-	143,499	-	-	143,499
Loan valuation allowance	$	-	-	-	-	-	-
Sub-contracting fees	$	-	9,888	-	-	-	9,888
Project funding expenses	$	-	-	-	-	-	-
Total program expenses	**$**	**86,250**	**9,888**	**143,499**	**-**	**-**	**239,637**
	$	**120,148**	**51,923**	**151,331**	**3,409**	**2,082**	**328,893**
Surplus/(deficit)	**$**	**(7,942)**	**(907)**	**11,270**	**177**	**(799)**	**1,799**

	For the year ended March 31, 2015 (Note 20)						
	($'000)	Major Projects	Real Estate	Lending	Commercial Projects	Land Development	Total
Revenues							
Interest revenue	$	-	-	174,254	-	-	174,254
Investment income	$	-	-	20,270	-	-	20,270
Project delivery fees	$	25,224	-	-	3,557	1,504	30,285
Project transaction fees	$	5,955	-	-	3,307	2,177	11,439
Management fees	$	-	49,230	-	-	-	49,230
Recoverable advisory costs	$	18,878	-	-	-	-	18,878
Other income	$	-	86	1,467	-	-	1,553
	$	**50,057**	**49,316**	**195,991**	**6,864**	**3,681**	**305,909**
Expenses							
Salaries and benefits	$	24,423	30,902	4,134	2,772	1,850	64,081
General and administration	$	7,408	8,957	2,876	820	379	20,440
Program expenses							
Project transaction cost	$	13,674	-	-	2,895	2,177	18,746
Recoverable advisory costs	$	18,878	-	-	-	-	18,878
Interest expense	$	-	-	164,687	-	-	164,687
Loan valuation allowance	$	-	-	5,686	-	-	5,686
Sub-contracting fees	$	-	9,906	-	-	-	9,906
Project funding expenses	$	171	-	-	-	-	171
Total program expenses	**$**	**32,723**	**9,906**	**170,373**	**2,895**	**2,177**	**218,074**
	$	**64,554**	**49,765**	**177,383**	**6,487**	**4,406**	**302,595**
Surplus/(deficit)	**$**	**(14,497)**	**(449)**	**18,608**	**377**	**(725)**	**3,314**

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation in the current period.

Ontario

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