

2016 2017

Annual Report

Ontario Infrastructure and Lands Corporation

Ontario
Infrastructure Ontario

OUR PURPOSE

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

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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Linda Robinson
Chair,
Board of Directors

I am pleased to present the annual report of Infrastructure Ontario (IO), which highlights the agency's accomplishments and results during the 2016–17 fiscal year. IO continues to provide high quality service to the Government of Ontario in the delivery of major infrastructure projects, real estate services, infrastructure lending, and commercial advice.

This year saw the departure of Bert Clark from the position of President and Chief Executive Officer after heading IO for the past four years. Under his leadership, IO pursued new opportunities across its divisions and effectively promoted the benefits of IO's central role in real estate management and public infrastructure project delivery. On behalf of the Board, I wish to thank Bert for his tireless efforts on behalf of IO; his dedication has served to solidify IO's global reputation. We look forward to forging an equally strong relationship with IO's new President and CEO, Ehren Cory, who previously led our Major Projects division. We are confident that Ehren's knowledge and experience will expand the agency's capacities and further strengthen our relationships with partners and stakeholders.

The Board of Directors was also pleased to welcome Johanne Brossard, Kathy Milsom, and Deborah Barrett to the Board this past year. Their skills and expertise in finance, real estate, and engineering enhance the Board's depth of experience in these areas.

As the government commits historic levels of funding toward future infrastructure development and continues to modernize its real estate portfolio, IO remains equally committed to improving its management and delivery of services on behalf of the Province. We are ever mindful of our responsibility to be accountable, transparent, and diligent in all that we do, so as to ensure real value to the Province. We will continue to hold ourselves – and our partners – to the highest standards.

The Board of Directors is proud of IO's accomplishments during the past year. I am confident that, under our renewed leadership, IO will continue to create successful partnerships to modernize public infrastructure and real estate in the years ahead.

Linda Robinson
Chair, Board of Directors

Ehren Cory
President and
Chief Executive Officer

It is my pleasure to report upon Infrastructure Ontario's achievements during 2016-17. The past year has been a very successful one, in which IO significantly exceeded its corporate objectives across all its lines of business.

The agency's Major Projects division continued delivery of the government's infrastructure program, which has brought to market nearly 100 Alternative Financing and Procurement projects since 2005, at a value of over $45 billion in capital cost. Last year, four projects reached substantial completion, an additional five projects reached financial close, and another five projects entered into construction. In collaboration with our partner Metrolinx, IO also began procurement of six projects for the Regional Express Rail program, a regional transit initiative that will transform the Greater Toronto-Hamilton Area. Our annual third–party review of Major Projects' delivery performance confirmed that 49 of the 51 AFP projects to reach substantial completion (as of March 2016) were completed on or below budget.

IO's Real Estate division made strategic investments to modernize and enhance the government's real estate portfolio and reduce the size of its holdings. Over $600 million was committed last year towards operation and maintenance of the portfolio and approximately $300 million towards building capital reinvestment. Through the division's asset planning, facilities contract management, and real estate advisory services, we are working to ensure the portfolio is environmentally and financially sustainable. In cooperation with the Ministry of Infrastructure, IO also moved forward on the Queen's Park Reconstruction Project, which will be a major step towards transforming the government's office real estate portfolio.

Since 2003, the Lending program has provided affordable, long-term financing to hundreds of public sector clients, helping them to modernize and renew their infrastructure and revitalize their communities. During the past year, IO's Lending program approved 100 new loans worth over $975 million, bringing the total value of loans advanced since the program's establishment to more than $8 billion.

The Commercial Projects division worked to identify and create strategic partnerships and negotiate transactions on behalf of the government. During 2016-17, the division completed the sale of the LCBO's prime head-office lands in downtown Toronto, maximizing the value of this property and realizing substantial revenues for the Province. It also provided strategic advice to a range of ministries and government agencies on commercial issues.

In cooperation with its private sector partners, IO will continue to support the government's initiatives to modernize and maximize the value of public infrastructure and real estate, for the benefit of all Ontarians.

Underpinning all of these results is an extremely dedicated team of professionals. IO's ability to bridge between the public and private sectors is a direct function of its mix of commercially-oriented experts – the majority of IO's staff come from the private sector and have a wide range of technical and commercial skills.

I am proud to work with our Board and Executive team to build on these strong results and set new strategic priorities, and to continue to engage our employees as we pursue new objectives in 2017-18.

Ehren Cory
President and Chief Executive Officer

WHO WE ARE

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

We believe in the potential of the public and private sector working together. All IO business lines have a track record of building successful relationships with the private sector to benefit Ontarians across the province. In the same way, our work encourages government to be more strategic in preparing to meet modern infrastructure demands, and investing in projects that deliver the best outcomes.

All told, we have constructed over $19 billion 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, 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. Finding innovative ways to reduce and revitalize the government's building and land holdings is central to our business and integral to the value we provide Ontarians. We manage close to 5,000 buildings and 44 million rentable square feet of realty space. We have approved over 1,000 loans to more than 380 clients across Ontario.

We are proud of how IO brings together this expertise to benefit people and communities that 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 Infrastructure (MOI) through the Chair of our Board of Directors.

IO's delivery of infrastructure projects worth billions of dollars, and its responsibility to manage one of the largest real estate portfolios in Canada, requires a rigorous and accountable governance structure. IO applies a high standard of corporate governance to ensure accountability and operational efficiency. The Ontario Infrastructure and Lands Corporation Act, 2011 sets out IO's authority and responsibilities.

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

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

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, IO employees must annually confirm their commitment to comply with the code.

ACCOUNTABILITY AND TRANSPARENCY

IO is mindful of its obligations to exercise due diligence, ensure accountability, provide transparency, and demonstrate results, so as to provide real value to the Province in its endeavours.

Several oversight committees monitor financial and operational performance, risk management, and accountability as illustrated in the following chart.

BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE
Exercises specific delegated authority of the IO Board and reviews/assesses public works, infrastructure and real estate projects, and projects assigned to IO having high value, high profile, high risk, or complex structure

CREDIT & REAL ESTATE COMMITTEE
Monitors IO's credit profile and lending function; reviews/oversees adherence to lending/treasury policies; monitors all of the real estate activities

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

CEO AND EXECUTIVE TEAM

MANAGEMENT COMMITTEES

INVESTMENT & RISK COMMITTEE
Oversees major transactions at critical project milestones or refers transactions to the Executive Committee of the Board for review/approval

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

REAL ESTATE COMMITTEE
Oversees asset management, strategic asset planning, realty transactions and land development that impact the General Real Estate Portfolio, also all real estate traditional projects and AFP operations and Early Works

AFP STEERING COMMITTEE
Oversees all business development, delivery and operations related to AFP Projects and traditional major projects assigned to the division for delivery

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

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. 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 Audit Committee and the Board review the ERM policy as required (typically every two years) to reflect emerging circumstances and best practices. Key risks are regularly reviewed by senior management and reported quarterly to the Audit Committee of the Board and the MOI. More detail on the risk categories, risk framework, and key risks can be found in the Financial Statements included in this report.

OUR PURPOSE

The Ontario government has committed $190 billion towards public infrastructure investment over 13 years, commencing in 2014-15. This significant investment creates opportunities for partnership and the renewal of Ontario's infrastructure and real estate assets.

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

IO modernizes, optimizes, value enhances, and integrates the next generation of government real estate by focusing on asset planning and management, facilities and contract management, and real estate advisory services.

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

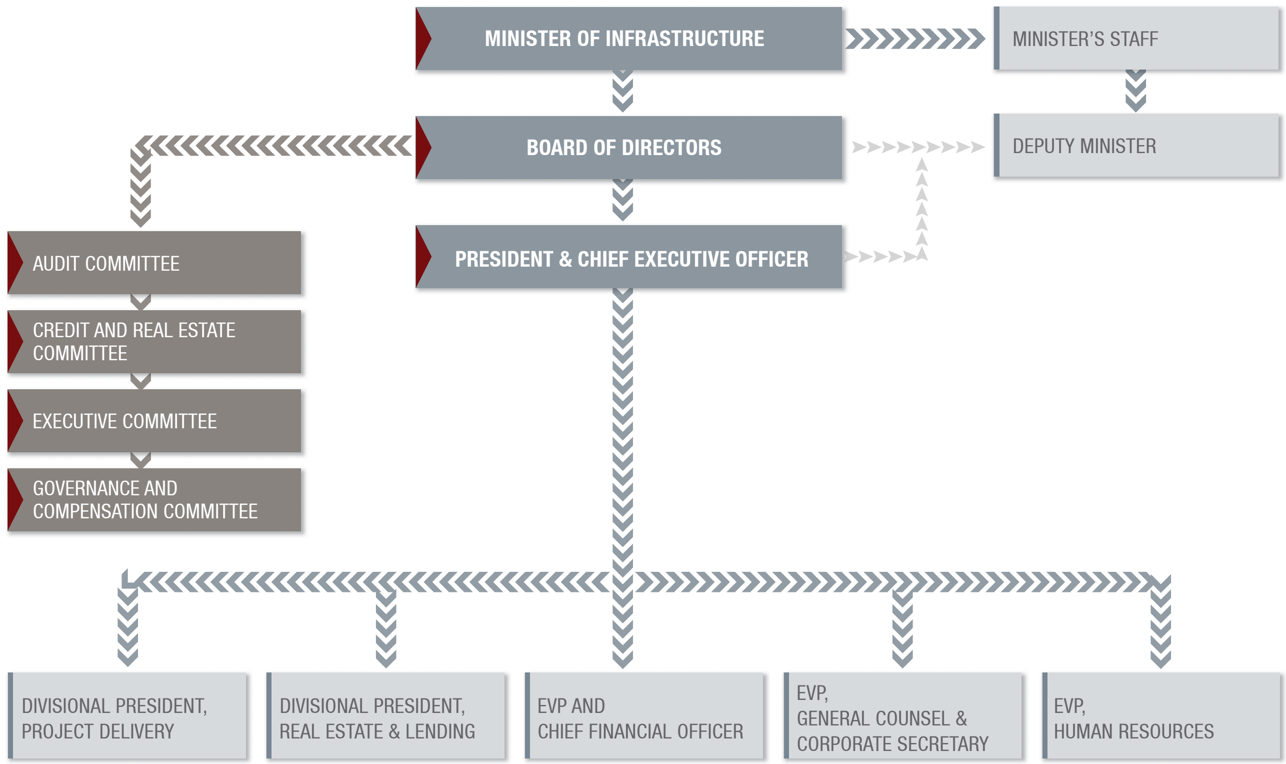
Our responsibilities include:

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

Queen's Park Reconstruction Project

Providence Health Care Centre

Our Corporate Structure



BOARD OF DIRECTORS

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

Total annual remuneration paid to the Board of Directors in the 2016-17 fiscal year was $197,075.

Linda D. Robinson, Chair
(Term: March 7, 2017, to March 8, 2020)

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

Deborah Barrett
(Term: December 20, 2016, to December 20, 2019)

Deb Barrett recently retired as Chief Financial Officer of The Woodbridge Company Limited. Prior to joining Woodbridge in 2004, she held a number of senior financial leadership positions. Ms. Barrett is a trustee of Canadian Real Estate Investment Trust, where she is a member of the Audit Committee and is the current chair of the Compensation and Governance Committee. She is a member of the audit committee of the Globe and Mail and a member of the board of Soulpepper Theatre.

Bruce Bodden
(Term: February 25, 2017, to February 25, 2020)

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.

Johanne Brossard
(Term: December 20, 2016, to December 20, 2019)

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

Colleen Campbell (Vice Chair)
(Term: October 23, 2013, to October 22, 2019)

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

Patrick J. Dillon
(Term: September 6, 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 has been appointed by the Government of Ontario to serve on several boards, including the Workplace Safety and Insurance Board.

Lawrence Kelly
(Term: May 4, 2016, to May 4, 2019)

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

Gadi Mayman
(Term: January 24, 2017, to January 24, 2020)

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

Kathy Milsom
(Term: December 20, 2016, to December 20, 2019)

Kathy Milsom is a member of the Board of Directors of the Greater Toronto Airports Authority, and the chair of its Risk Oversight Committee. She is also a director for Thermal Energy International Inc. and a director and former chair of the Standards Council of Canada.

Vito Sgro
(Term: July 18, 2016, to July 18, 2019)

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

PRESIDENT AND CEO

Ehren Cory
(Term: February 2, 2017, to February 2, 2020)

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

In 2015, Ehren became the President of IO's Project Delivery division. He led the team in tendering and construction activities for large-scale major capital projects undertaken by the Province using the AFP model.

Prior to joining IO, Ehren worked for 15 years as a management consultant. As a partner at McKinsey & Company, he was a leader in the Public Sector and Capital Projects groups.

DIVISIONS

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

The main divisions are supported by three corporate functions:

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

REAL ESTATE AND LENDING

Toni Rossi
Divisional President

The government, through MOI, holds one of Canada's largest and most diverse real estate portfolios. The average age of the portfolio is approximately 52 years, with the majority of buildings constructed during the 1960s and 1970s. Properties include offices, courthouses, detention centres, laboratories, heritage buildings, and land banks. Over three quarters of the building portfolio is government owned. IO's ability to deliver on the government's objectives and ensure the integrity and value of the GREP portfolio is dependent on adequate funding. Adding to the reinvestment challenge with the real estate portfolio is the financial commitment needed to meet various initiatives such as accessibility, heritage, greening and energy efficiency requirements.

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 whole-life approach to real estate uses a number of essential elements to modernize, optimize, value enhance, and integrate the next generation of government real estate. IO's Real Estate division executes this approach under two main business units: Portfolio Strategy and Transactions Services; and Realty Operations and Asset Management.

PORTFOLIO STRATEGY AND TRANSACTIONS SERVICES

The Realty Portfolio Planning, Office Real Estate Portfolio, and Realty Transaction groups apply real estate best practices to maximize the value of buildings and land and plan for future use. This can include reusing, reinvesting or selling assets to generate revenue for government. The business unit provides strategic accommodation planning to: optimize new and existing office and special purpose space; and transform this space into efficient, modern, and flexible accommodation. The team works in cooperation with the private sector to execute property appraisals, environmental assessments, commercial leasing, sales, easements and acquisitions to deliver the strategic changes required in the portfolio.

REALTY OPERATIONS AND ASSET MANAGEMENT

The groups of Asset Management and Central Operations, Outsourced Governance, AFP Operations, and Project Services oversee the day-to-day operation and long-term maintenance of MOI buildings through partnerships with private-sector service providers. The business unit generates operating and energy management efficiencies, improves safety and accessibility, and preserves heritage properties. In addition, the team delivers projects for Ministry clients and IO's capital repair program. These projects are procured under a traditional stipulated sum methodology using standard Construction Contract Documents Committee contracts and IO supplementary conditions.

The Real Estate Division is supported by the Realty Analytics and Client Integration business unit. This unit provides research, analytics, benchmarking, data quality assurance, reporting, contract compliance expertise and process development services to address current and future business. The team develops client outreach and integration strategies to ensure that IO's services are aligned with client requirements. The team's geomatics and land survey experts provides survey and mapping services to support informed portfolio decisions.

General Real Estate Portfolio at a Glance

- 44.0 million Rentable Square Feet
  - Owned: 30.3 million RSF
  - Leased: 10.0 million RSF
  - AFP: 3.8 million RSF
- 4,838 buildings and structures
  - Owned: 4,176
  - Leased: 633
  - AFP: 29
- 1.1 million acres
  - IO managed: 131 thousand acres

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. IO's Loan Program is one of the largest public sector lending 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.

Loan Program 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 on-line; and
- Access to dedicated and experienced staff.

Growth of the lending program reached a milestone in 2016-17, with over $8.3 billion in loan advances to public sector clients since inception. The team currently administers a $5.7 billion loan portfolio consisting of 1,000 active loans.

Loan Program at a Glance (since inception)

- $14.71 billion worth of infrastructure renewal projects supported by the Loan Program
- 380 borrowers throughout Ontario

PROJECT DELIVERY

Ehren Cory
Divisional President (to February 2017)

Governments in Canada, at all levels, are making public infrastructure investments a priority. Major infrastructure projects have risks: cost risks, schedule risks, risks related to urban disruption and long-term asset quality risks. It is critical that the Government of Ontario employs the best modern project delivery techniques to ensure that these projects are successfully delivered.

The IO Project Delivery division executes its mandate through the work of two business units: Major Projects and Commercial Projects.

MAJOR PROJECTS

Alternative Financing and Procurement (AFP) is an innovative made-in-Ontario model that employs the best elements of both traditional public procurement and public-private partnerships to finance and deliver large, complex infrastructure projects.

IO uses a whole-life approach to project delivery that involves:

- extensive due diligence and pre-approvals from authorities in the planning stage, and the use of empirical data to enable well-informed decisions;
- contract methods to mitigate design risk and encourage innovation and value engineering during the procurement phase;
- project financing arranged by project consortia, which transfers risk and provides for lender oversight to help drive performance;
- project execution that minimizes disruptions to the public and risks associated with integrating construction stages; and
- seamless delivery from the construction to operations phase using all-inclusive plans for the proper maintenance of the asset.

Successful project delivery is reliant upon competent private sector partners who can work through issues that arise on large complex projects:

- IO uses a rigorous pre-qualification process to identify eligible bid teams and applies the complex rules that govern public procurement fairly and openly;

- performance-based contracts ensure the government receives full value of the asset before the contractor is compensated;
- new requirements added to the standard Project Agreement in 2016-17 reinforce timely communications with project sponsors, increase rigor regarding works schedule requirements, and strengthen IO's methodology for calculating payment at substantial completion of a project; and
- protection against the risks of late delivery are provided in the Project Agreement with indemnity for any direct losses incurred by IO clients.

The 2016 AFP Track Record was published in January 2017. The third party review confirmed that IO exceeded industry standards with 73% of projects (37 of 51) delivered on-time. And 96% of projects (49 of 51) completed on-budget. Two projects were over budget by a small margin of under 0.3% in total.

During the past decade, IO has completed nearly 60 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

As of March 31, 2017, 58 AFP projects have reached substantial completion, worth an estimated $19.2 billion in capital cost.

COMMERCIAL PROJECTS

The Commercial Projects team provides the government and public sector partners with advice and negotiation support for commercial transactions. These partnerships may be linked to economic development investments by the government, alternative service delivery contracts, or the divestment of government assets. Specifically, IO has partnered with the Ministry of Finance's Government Business Enterprise and Strategic Initiatives team to provide commercial advice and support for a range of high profile and strategic initiatives as required.

The Commercial Projects team continues to make progress on complex land divestments earmarked for the Trillium Trust. Net proceeds from the sale of the Liquor Control Board of Ontario (LCBO) Head Office Lands and the Ontario Power Generation Head office in Toronto will be credited to the Trillium Trust and used to fund infrastructure projects in Ontario.

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 agency-wide financial activities, maintaining IO's information technology, transaction structuring and corporate reporting.

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

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

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

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

Corporate Reporting is responsible for developing and implementing frameworks and methodologies to measure results and outcomes against corporate and divisional objectives.

HUMAN RESOURCES

Kim Ellis
Executive Vice President

IO's Human Resources team ensures that the agency is able to attract and retain a talented and highly-engaged workforce within an environment that encourages and enables staff to deliver IO's mandate. The Human Resources team is committed to high performing employees through programs, processes, and tools that align with the needs of the organization, including:

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

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

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 printed records and other media.

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 responds to all Freedom of Information and Protection of Privacy Act (FIPPA) requests.

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.

OUR RECORD

ALIGNING SERVICES WITH GOALS

The 2016-17 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.

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

In the 2016-17 fiscal year, IO achieved all of its corporate objectives. Details on the objectives and the results are listed in the following table:

CORPORATE OBJECTIVES	MARKERS OF SUCCESS	ACHIEVEMENTS
Growth and New Business: Develop new opportunities aligned with government priorities	Secure new mandates for transit and transportation.	**Achieved** Total of 14 new mandates secured pertaining to the Regional Express Rail (RER)
Growth and New Business: Develop new opportunities aligned with government priorities	Secure new mandates for social infrastructure projects.	**Achieved** Total of 19 new mandates secured 4 correctional facilities, 1 courthouse, 1 laboratory, and 13 hospitals
Growth and New Business: Develop new opportunities aligned with government priorities	Secure new commercial project mandates.	**Achieved** 6 new mandates secured
Growth and New Business: Develop new opportunities aligned with government priorities	Develop strategies and secure approvals required to continue modernizing the real estate portfolio.	**Achieved** IO completed its real estate strategy and TRIP for the portfolio. The plan highlights the strategies that will need to be employed over the next 10 years to shrink and modernize the portfolio.
Growth and New Business: Develop new opportunities aligned with government priorities	Continue to grow low-risk loan sectors.	**Achieved** Growth of the loan program reached a key milestone with over $8B in loan advances to public sector clients since inception.
Good Governance: Ensure the organization is well governed and demonstrates consistent reporting, risk management and accountability to IO Board of Directors.	Report in a streamlined, timely and high quality manner on all material infrastructure project, commercial project, real estate, and loan operations and risks	**Achieved** Board packages were supported by an enhanced Executive Summary and new dashboards.
Talent and People Management: Attract, develop, engage, and retain people to deliver successfully on our mandate and objectives.	Ensure continued commitment to employee engagement across the organization.	**Achieved** Two Pulse surveys were conducted to assess the level of engagement among employees in our operations groups Annual voluntary turnover rate was 10.2%.

Our Achievements In 2016-17

CORPORATE OBJECTIVES	MARKERS OF SUCCESS	ACHIEVEMENTS
Operational Effectiveness: Ensure efficient operations.	Meet the annual Corporate Budget.	**Achieved** The surplus for the Fiscal Year was $12.4 million, significantly better than the $3.1 million budget, largely due to certain onetime events.
Operational Effectiveness: Ensure efficient operations.	AFP Projects delivered successfully and safely with a high degree of client satisfaction.	**Achieved** No significant safety issues were identified in 2016-17 IO's training and development program included: Safety awareness for employees visiting the field The Certificate of Recognition occupational health and safety accreditation program (COR) became a mandatory prequalification requirement for general contractors participating in the RFQ process for AFP projects.
Operational Effectiveness: Ensure efficient operations.	Real Estate projects and programs delivered successfully and safely with a high degree of client satisfaction.	**Achieved** No safety issues were identified in 2016-17 General contractors bidding on IO traditional projects over $10 million were required to initiate registration with COR by April 1 2017
Operational Effectiveness: Ensure efficient operations.	Implement continuous improvement initiatives in the divisions.	**Achieved** AFP Vendor Performance Program AFP Schedule Performance AFP Project Risk Reporting IO and Independent Electricity System Operator 5-year Partnership to test innovative processes, technologies and program delivery Space Utilization Sensor Pilot IO's website was refreshed with updated content, modern graphics and improved functionality
Improve records management and project controls.	Improve records management and project controls.	**Achieved** New folder structure was established and a detailed template file plan was developed for AFP divisional and shared services Automated integration of the AFP project system and IO's records management system was launched Quality Management Review Program for AFP projects, focused on oversight and project controls

REAL ESTATE

TARGETED REALTY INVESTMENT PLAN (TRIP)

To support the Management Board of Cabinet Realty Directive and government policies that establish requirements for realty portfolio planning, IO completed an analysis of the real estate portfolio during 2016-17 and put forth an advanced mitigation strategy known as the Targeted Realty Investment Plan (TRIP). TRIP is comprised of inter connected strategic plans to enhance MOI's government real estate portfolio over a 10 year period:

- Capital Reinvestment Plan;
- Demolition Plan;
- Office Optimization Plan;
- Leasing Plan;
- Specialized Portfolio Plan;
- Divestment Plan;
- Contaminated Sites Plan; and
- Greenhouse Gas Reduction Investment Plan.

CAPITAL REINVESTMENT PLAN

IO optimizes the capital repair reinvestment program by prioritizing needs in order to operate the portfolio in a safe and efficient manner. The capital reinvestment plan aims to close the capital repair funding shortfall and manage the portfolio's deferred maintenance within acceptable levels as identified by the Facility Condition Index (FCI). The FCI is an industry best practice used to assess required capital investments during a specified period over the current replacement value of the Asset. IO applies 95% of available funding to address health and safety, building code, and imminent breakdown issues. In 2016-17, IO managed the investment of $168 million in building upgrades to address priority repairs and replacements, deferred maintenance, and energy efficiency.

LAMP (Leasehold Asset Management Plan) is a strategic program that coordinates IO capital repair investments with client ministry investments due to evolving program needs. IO has shared its capital expertise with various Ministries to ensure leasehold improvement projects are planned and prioritized according to best practices. LAMP was expanded in 2016-17, to develop asset assessment protocols for the Ministry of Natural Resources and Forestry's unique portfolio of provincial parks, trails and other assets.

DEMOLITION PLAN

The Demolition Program is intended to reduce risk and liability by demolishing vacant surplus buildings with no potential reuse or sales value. In 2016-17, over 200 buildings were earmarked for demolition. Demolition of these vacant buildings will:

- reduce the size of the building portfolio by 1.8 million rentable square feet;
- reduce risk and liability by up to $3.7 million annually; and
- facilitate sale or redevelopment of properties.

IO has demolished 47 buildings as of March 31, 2017, under a two-year accelerated demolition program.

OFFICE OPTIMIZATION PLAN

In 2012, the provincial government implemented the Realty Transformation Strategy to better utilize and maximize its realty portfolio. As part of this strategy, the government established two footprint reduction targets: a reduction of 1 million square feet of office space in Toronto and of 300,000 square feet of office space outside of Toronto.

The Office Optimization Plan will help to right-size the office portfolio by developing and applying efficient and flexible workspace solutions. A single strategy is being employed to assess client demand and office space supply in the market place in order to identify future footprint reduction opportunities.

At the end of March 2017, approximately 80% of the 1.3 million square foot target had been realized. Office space in Toronto has been reduced by an estimated 753,000 square feet, and by 353,000 square feet outside Toronto. This reduction provides savings in gross rent of nearly $29 million.

In 2016-17, IO began a pilot project in the agency's office space at 1 Dundas Street in Toronto to collect data on office space utilization. The project will track staff use of individual and shared spaces to help develop alternative workplace strategies and guidelines that may be applied across the portfolio.

LEASING PLAN

IO leases approximately 10 million rentable square feet of facility space from the private sector. Leases for approximately 15% of this space expire annually. IO maximizes opportunities under advantageous market conditions and minimizes impacts during unfavourable conditions by strategically planning ministry accommodation needs in collaboration with IO's Office and Specialty portfolio teams, and by using our knowledge of local real estate markets. IO develops comprehensive lease expiry plans that leverage the agency's relationships with landlords and apply government-friendly lease templates to curb rental rates within the market. In 2016-17, the Leasing team completed over $261 million in lease transactions and negotiated approximately $15.7 million in savings for the Province.

In addition to leasing space from the private sector, IO acts as a landlord, generating revenue by leasing vacant space within government-owned buildings to third-party tenants. IO currently administers over 1.9 million rentable square feet of space and 35,100 acres under lease to third-party tenants.

Leasing at a Glance:

- IO holds 935 active leases/licenses with approximately 600 third-party landlords
- IO holds over 820 leases/licenses with third-party tenants

SPECIALIZED PORTFOLIO PLAN

Nearly two thirds of the portfolio is comprised of special purpose assets, such as courthouses, detention centres, and laboratories. The Specialized Portfolio Plan focuses on identifying suitable utilization metrics to guide policies for modern design and the efficient use of space within these facilities.

In 2016-17, IO completed optimization studies in partnership with several ministries to identify consolidation, co-location, or new building requirements within the real estate portfolio.

DIVESTMENT PLAN

IO annually evaluates MOI's real estate holdings on the basis of building condition assessments and review of broader scale community plans.

The 10-year Divestment Plan aims to reduce the number of surplus government properties to zero. Divestment of identified surplus properties will:

- reduce the size of both the building and land portfolios by more than 11%;
- reduce liabilities by $40 million; and
- generate over $200 million in revenue for the government.

The ongoing success of the divestment plan is contingent upon the support of government and the implementation of policy changes to remove barriers in process, which will allow new approaches in risk based due diligence for low value assets.

SALES

As part of the overall divestment plan, the real estate sales program enables IO to generate revenue and reduce long-term liabilities. The program also allows limited capital repair funding to be directed towards essential buildings in program use.

A new three-year sales plan was implemented in 2016-17 to generate an additional $60 million in net revenue and achieve a liability reduction of $750,000 by 2019. IO generated $27.2 million in net sales, exceeding the target of $25 million for 2016-17. A liability reduction of $465,000 was achieved in 2016-17, surpassing the target of $250,000.

2016-17 Sales Results

Negotiated Benefit (Sale Price – Appraised Value)	No. of Transactions Closed	No. of Buildings Sold	Total Land Acreage Sold	Total Building Sa. Ft. Sold
$423,650	**67**	**9**	**8,622***	**32,400**

*includes inter-ministry transfers and acquisitions

Two noteworthy divestments took place during 2016-17:

1. Sale of an 11 acre parcel with several significant constraints and redevelopment challenges.
The property formerly owned by the Ministry of Transportation, in the City of Pickering, sold on the open market for $2.31 million.

2. Nominal disposition through transfer of 378 acres in Brant County. The former Burtch Correctional Centre was transferred to a company established by the Six Nations community. This is a significant milestone in satisfying the 2006 provincial commitment to transfer the lands to the indigenous community.

CONTAMINATED SITES PLAN

In 2016-17, IO developed a 10-year Contaminated Sites Plan to reduce liability, risk, and adverse effects related to priority contaminated sites within the portfolio. Priority sites are those identified as posing a significant ecological or human health risk. These sites will be remediated or sold by 2025 26.

IO also proactively conducts environmental site assessments for locations with suspected contamination and updates the contaminated site plan as required.

GREENHOUSE GAS REDUCTION INVESTMENT PLAN

The Climate Change Mitigation and Low-carbon Economy Act, 2016 set ambitious reduction targets for the Province and requirements for a five-year Climate Change Action Plan. The Climate Change Action plan was released in 2016.

To support this priority, IO developed a Greenhouse Gas Reduction Investment Plan. The goal is to achieve a carbon neutral portfolio by promoting reductions in energy demand, increased on site energy efficiency, and the use of carbon neutral energy sources. The following reduction targets have been set for greenhouse gas emissions from buildings in the government portfolio (compared to 2006 baseline levels):

- carbon neutrality by 2018 (through carbon offsets);
- by 27% by 2020; and
- by 50% by 2030.

IO has achieved an estimated 32% cumulative reduction as of December 2015. When fully implemented, the plan will deliver nearly 2,000 projects in 600 core buildings within the portfolio. The ongoing success of this program is dependent upon the availability of funding to support specific projects.

FORFEITED CORPORATE PROPERTIES

The Forfeited Corporate Property Act, 2015 came into effect in December 2016, giving the Minister of Infrastructure sole authority over forfeited corporate property (FCP). Forfeited corporate properties are defined in part as real property and interests in real property that have been forfeited upon dissolution of a corporation. IO will support MOI with activities such as: FCP portfolio management and tracking; valuation opinions; legal title reviews and opinions; liability reduction; property management; and potential disposition.

In 2016-17, IO effectively disposed of an FCP site of 25 acres on Goreway Drive in Brampton. The transaction was completed through an open market sale valued at $3.35 million.

VALUATION SERVICES

Payments in lieu of municipal property tax (PILTs) are issued to municipalities based on current property value assessments as determined by the Municipal Property Assessment Corporation and municipalities. Recent increases in real estate assessed values have imposed additional fiscal constraints on IO's management of the real estate portfolio. In 2016-17, the Valuation Services team completed 107 successful assessment appeals, resulting in a total tax savings of $26.8 million, the fifth consecutive year that the team has negotiated tax savings of over $4 million.

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 to be achieved by 2020 (compared to 2012 baseline levels). 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 over 13% as of March 2017.

IO and the Independent Electricity System Operator (IESO) entered into a five-year partnership to test innovative processes, technologies, and program delivery. The process of identifying individual projects is underway and will continue throughout 2017. Selected projects will focus on: energy efficiency, operational performance, and the opportunity to create net-zero-energy buildings (where the energy used is roughly equal to the amount of renewable energy created on site). The plan is to be fully executed by the end of 2020. The IESO will allocate up to $10 million to support approved IO projects.

LEADERSHIP IN ENERGY AND ENVIRONMENTAL DESIGN (LEED) CERTIFICATION

IO promotes green building practices that minimize the impact of construction and building operation 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. IO aligns its AFP and real estate management programs with the Canada Green Building Council's LEED guidelines by employing environmentally sustainable practices during design, construction, and ongoing building operations. By the close of the 2016-17 fiscal year, 55 buildings have been LEED certified and another 25 certifications will be sought for buildings in design or construction.

LENDING

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

The Lending team expands the loan portfolio by concentrating on a number of key sectors that have demonstrated overall stability over many years. It exercises strong regulatory oversight and draws upon mature federal, provincial, and municipal funding support.

In 2016-17, the Lending team received 105 new loan applications totaling $1.05 billion in value, and approved loans worth over $975 million - including:

- $372 million to Toronto Community Housing Corporation for refinancing and renovations;
- $129 million to the City of Hamilton for several capital infrastructure projects; and
- $45 million to Ottawa Community Housing Corporation for refinancing and renovations.

CANADA-ONTARIO CLEAN WATER AND WASTEWATER FUND

The federal and provincial governments announced a bilateral agreement that will make more than $1.1 billion in combined funding available under the Clean Water and Wastewater Fund. In support of this program, the Ministry of Infrastructure has directed IO's Loan Operations team using its lending platform, knowledge, and expertise to deliver the CWWF to communities and First Nations across the province. The program was launched in September 2016.

MAJOR PROJECTS

AFP UTILITIES MANAGEMENT

Utility relocation remains a key risk for linear civil infrastructure projects, causing unanticipated project costs, schedule impacts, and additional public disruption. During 2016-17, a committee consisting of IO, Metrolinx, and Ministry of Transportation representatives conducted market soundings with developers, contractors, asset owners, and utility owners to identify methods to reduce risk. The feedback received was incorporated into a newly created Utility Relocation Framework. A one-year action plan to implement the framework is being implemented.

TECHNOLOGY NEEDS IN HOSPITALS

IO is working with hospital clients to better understand their evolving technological requirements, in order to develop a template approach to integrating newly-specified clinical and business systems.

MAXIMIZING COMPETITVE BIDDING

IO is committed to procuring goods and services through processes that are fair, open, and transparent. IO seeks to secure goods and services of the highest quality with the greatest value for money in a timely and efficient manner. With these objectives in mind, IO undertook a market capacity study in 2016-17 to optimize the number of qualified bidders on major AFP projects. This study of large scale civil, social, and industrial projects within Ontario, Canada, and the United States reviewed market capacity with respect to labour, professional services, and materials, and the availability of vendors to bid on and build projects. An implementation plan for the accepted recommendations is underway.

HEALTH AND SAFETY PROGRAMS

IO is committed to the health and safety of its employees, clients, industry partners, and the general public at all of its job sites and offices across Ontario. IO was proud to be the first public agency to join the League of Champions, an initiative undertaken in 2016 by the Ontario General Contractors' Association and MySafeWork to promote safety improvement in individual companies and the construction industry as a whole.

In the fall of 2016, the Certificate of Recognition (COR) accreditation program became a mandatory requirement for general contractors/constructors participating in the RFQ process for AFP projects. As part of the evaluation process for the RFQ, project companies must submit a Certificate of Recognition to supplement other key industry safety documents such as Workplace Injury Summary Reports and records of their performance related to management of safety insurance claims.

IO also expanded COR requirements for traditionally-delivered projects using a stipulated sum methodology. To comply, all contractors must have initiated the registration process for COR by April 1, 2017, in order to be eligible to bid on projects over $10 million. The deadline for becoming COR-certified is April 1, 2018.

Ontario government investments in infrastructure and real estate are creating economic benefits for Ontario, growth opportunities for Ontario companies, and employment opportunities for Ontarians. IO manages approximately 5,300 projects of varying size and complexity each year. IO assesses project complexity, risks, and return on investment to determine the appropriate project delivery methodology. In certain cases, recommendations are made to government for project implementation through either traditional project delivery methods or delivery using the AFP model.

AFP PROJECTS IN 2016-17

Four projects reached substantial completion:

- Highway 407 East Phase 1
- Peel Memorial Centre for Integrated Health and Wellness
- Providence Care Hospital
- Sheridan College Hazel McCallion Campus

Construction began on five projects:

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

Requests for Proposals were issued for eight projects:

- Groves Memorial Community Hospital
- Michael Garron Hospital – Phase 1 New Patient Care Tower
- Mount Sinai Hospital – Redevelopment Phase 3A
- New Toronto Courthouse
- Regional Express Rail – Cooksville Station
- Regional Express Rail – Highway 401 Rail Tunnel
- Regional Express Rail – Kipling Bus Terminal
- Regional Express Rail – Stouffville Corridor

FEATURE PROJECTS

PROVIDENCE CARE HOSPITAL, KINGSTON (MAJOR PROJECTS)

The new 622,000-square-foot Providence Care Hospital includes 270 private in-patient rooms, as well as modern therapy and clinic spaces for in-patients and outpatients. The project was designed and built to achieve LEED Silver certification, incorporating environmentally sustainable construction practices and an energy-efficient design. Construction began in May 2014 and reached substantial completion in December 2016. The project was delivered on time and on budget.

REGIONAL EXPRESS RAIL, GREATER TORONTO AND HAMILTON AREA (MAJOR PROJECTS)

Announced in 2014, the Regional Express Rail (RER) initiative will transform much of the existing GO Transit rail network to provide 15-minute, two-way, all-day, electrified service to communities across the Greater Toronto and Hamilton Area. System-wide upgrades include: adding tracks, expanding stations, electrification of the rail network, and purchase of new locomotives and train control systems to enable more frequent service. With projects spread out across the region, IO and Metrolinx are requiring bidders to think innovatively in order to meet complex integration requirements and manage the associated costs and risks.

In 2016-17, IO issued four Requests for Proposals for projects in the first phase of the RER initiative, which is valued at approximately $3 billion.

EAST RAIL MAINTENANCE FACILITY, WHITBY (MAJOR PROJECTS AND AFP OPERATIONS)

The new maintenance facility will provide maintenance, repair, and additional storage space for GO Transit to support the rail network's planned service expansion. The 500,000 square foot facility will allow GO Transit to service new rolling stock and will provide operational flexibility to ensure reliable transit service. The facility has been designed to meet LEED Gold certification standards. Construction began in March 2015 and substantial completion is planned for December 2017.

NEW TORONTO COURTHOUSE (MAJOR PROJECTS AND REAL ESTATE)

Located in downtown Toronto, the new Toronto courthouse will bring together several criminal courts operating across the city into a single, accessible location. Amalgamation of justice programs and services will reduce operational and facilities costs, improve efficiency, and better serve the community.

In October 2016, IO issued a Request for Proposals to prequalified teams to design, build, finance, and maintain the courthouse. Construction is expected to begin in spring 2018.

To prepare the site for construction, IO undertook a complex archaeological excavation that uncovered thousands of artifacts, many dating from the mid-18th century when the site was part of St. John's Ward, one of Toronto's earliest immigrant communities. Artifacts from the site were displayed at Toronto City Hall in February 2017 as part of Black History Month celebrations.

Design proposals for the courthouse will include plans for heritage commemoration and interpretation of the site.

QUEEN'S PARK RECONSTRUCTION PROJECT, TORONTO (MAJOR PROJECTS AND REAL ESTATE)

The Macdonald Block Complex adjacent to Queen's Park is home to the largest concentration of Ontario public servants, housing over a dozen government ministries and approximately 3,600 employees.

The 45-year-old complex, which includes the Macdonald Block podium, and the Hearst, Hepburn, Mowat, and Ferguson towers, is to undergo a major reconstruction. Core building systems — including electrical, water, cooling, and heating systems — that have reached the end of their useful life will be replaced.

The project is being delivered using the AFP project delivery model. Work is to be completed between 2019 and 2024 following relocation of staff to leased temporary office space.

The project, once completed, will reduce operating and capital maintenance expenses for the Macdonald Block by an average of more than $20 million annually, and also reduce the need for third-party leased space across the downtown Toronto core by over 380,000 square feet.

WHITNEY BLOCK REHABILITATION PROJECT (REAL ESTATE)

The reconstruction project also includes exterior and interior renovations to the Whitney Block, one of Ontario's oldest government office buildings. IO will oversee the project procurement process and provide project management oversight of the rehabilitation project.

880 BAY STREET DEMOLITION (REAL ESTATE)

In 2016-17, the former provincial office building at 880 Bay Street was demolished. The site, along with an adjacent property will become the staging area for the Macdonald Block project. IO requested proponents to demonstrate enhanced public safety protection given the building's tight proximity to the property line and heavy vehicle and pedestrian traffic along Bay Street. The successful contractor used modified shipping containers as protective hoarding rather than the traditional method of scaffold framing and plywood, which provided safe passage for pedestrians and supported completion of the project safely and effectively. Additionally, containers are faster and easier to install, and environmentally friendly since they are 100% reusable. The project was completed on time and on budget.

EXPANSION OF A. GRENVILLE AND WILLIAM DAVIS COURTHOUSE, BRAMPTON (REAL ESTATE)

This 132,000 square foot addition to the A. Grenville and William Davis Courthouse is targeted for completion in August 2018. The project involves construction of a six-storey addition to the existing courthouse with a complete basement. Two floors will be fit-up immediately with new courtrooms, waiting areas, and judicial chambers. The remaining floors will provide space for future courthouse development. The project is being delivered using a traditional stipulated-sum methodology. Construction started in January 2017.

SALE OF LIQUOR CONTROL BOARD OF ONTARIO (LCBO) HEAD OFFICE LANDS (COMMERCIAL PROJECTS)

IO was enlisted to lead the procurement process for the sale of LCBO Head Office Lands at 55 Lake Shore Boulevard East, in Toronto. IO issued a request for proposals (RFP) for the sale of the site in

September 2014. Following closure of the RFP and bid evaluations, Menkes Development Ltd. was selected as the successful purchaser. The disposition was completed with the closure of the sale in May 2016.

SALE OF ONTARIO POWER GENERATION HEAD OFFICE (COMMERCIAL PROJECTS)

IO provided advice and disposition services to Ontario Power Generation for the sale of its head office at 700 University Avenue, Toronto. A deal was successfully reached in December 2016, delivering $285 million to the Trillium Trust.

WALKERTON CLEAN WATER CENTRE - GREEN TECHNOLOGIES (REAL ESTATE)

Net-zero buildings contribute less overall greenhouse gas to the environment, such that the total amount of energy used by the building on an annual basis is roughly equal to the amount of renewable energy created on the site. IO will propose the Walkerton Clean Water Centre for inclusion in the Canadian Green Building Council Net Zero Pilot program, following a current detailed study and collection of required data. The purpose of the pilot program is to develop a standard definition and methodology for net-zero energy calculations.

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 2016-17, IO's Business Strategy and Communications team supported more than 60 public speaking opportunities.

The Business Strategy and Communications team published IO's Market Update, highlighting $11.8 billion in AFP projects, eight direct delivery projects and an estimated 700 new real estate capital repair projects.

The Business Strategy and Communications team continues to inform the public of IO's work via accessible platforms such as Twitter, YouTube, and LinkedIn. IO's website was refreshed with updated content, modern graphics, and improved functionality in 2016-17.

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 international delegations.

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.

Brookfield Global Integration Solutions (BGIS) is the PMSP for northern Ontario and the downtown Toronto core, while Colliers Project Leaders is the PMSP for southern Ontario, the Greater Toronto Area, and eastern Ontario.

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

PROPERTY AND LAND MANAGEMENT SERVICES (PLMS)

IO outsources Property and Land Management Services 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.

HEALTHY GOVERNMENT BUILDINGS

IO is diligent in the oversight of property management and project management service providers for the thousands of facilities in the provincial portfolio. Tools include annual audits, recurring review meetings, and quarterly reporting specific to health and safety.

AFP PROJECT COMPANIES AND FACILITY MANAGEMENT PROVIDERS

IO has 30-year relationships with project and facility management companies for government-controlled assets built under the AFP model. These companies are contractually responsible for the operation and life cycle asset management of 28 buildings, for which they receive annual service payments totalling approximately $170 million.

OUTSOURCED CONTRACT DUE DILIGENCE

Overall, IO's facility, project management and AFP service providers are performing well and all parties are focused on the successful delivery of key priorities.

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 include project and facility management specialists and finance, procurement, and legal professionals, monitor service provider compliance with Master Service Agreements, legislative requirements, government policies, and IO procedures.

In 2016-17, IO carried out a comprehensive review of existing key performance indicators applied under the PLMS and PMSP contracts. The intention is to strengthen service provider performance and improve alignment with emerging objectives and client expectations. The changes will commence in 2017-18.

The PLMS and PMSP Master Service Agreements expire in 2020, exclusive of any extension options. In preparation for the next generation of outsourced service delivery contracts, IO launched a comprehensive continuous improvement initiative to examine an appropriate scope of services, lessons learned and opportunities to strategically align objectives and evolve performance.

PROCUREMENT

Transparent and ethical business practices are imperative to IO's reputation publicly and in the marketplace. In 2016-17, a new AFP Vendor Performance Program was successfully launched. The program will monitor, track, and evaluate construction contractors' performance on AFP projects and will impact evaluation results for future AFP projects. Additionally, an initiative was successfully launched in AFP projects that requires bidders to provide certifications regarding ethics and conflicts of interest policies from third party national accounting and audit firms, providing added due diligence to ensure a fair procurement process. In addition, the Report of the IO Board of Directors Special Committee found that IO's AFP procurements use international and domestic best practices.

In addition, as a follow-up to the 2014 Auditor General AFP audit recommendations and as part of IO's enterprise-wide records management plan, the pilot of an online Electronic Tendering System to receive and evaluate bid submissions was started in 2016-17. The system will advance conflict of interest screening, audit controls, process efficiencies and comparative analytics.

During 2016-17, IO began the renewal of Vendor of Record (VOR) arrangements in four service categories – general contractors, architectural services, engineering/technical services and interior design services. The renewal began with general contractors in November 2016 and will continue with engineering and architectural consulting services in 2017-2018. These VORs enable projects delivered by IO's Project Services and Project Management Service Providers. The new VORs use a province-wide approach to ensure the fair distribution of work among firms from across the province, making the administration of the VOR simpler, more streamlined, and efficient.

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 2016-17, IO's Procurement and Records Management team undertook a number of initiatives to improve records management:

- development of a new standardized folder structure and detailed file plan for the Major Project division and shared services;
- automated integration of Major Project's document and project management system with IO's electronic filing system of record; and
- launch of a pilot project enabling AFP evaluations to be conducted entirely in an electronic environment, so as to improve the consistency, timeliness, and quality of evaluations.

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

IO strives to create a workplace where employees are dedicated to achieving organizational goals, know how to contribute their best effort, and feel challenged and engaged. In 2016-17, the Human Resources team introduced a number of new initiatives to enhance IO's commitment to its employees.

One such initiative involved the introduction of a "high-touch approach" to hiring, involving:

- one-on-one meetings between HR staff members and hiring managers to review the critical role managers play in orienting new employees;
- regular contact throughout the first three months following hiring to offer support, proactively address outstanding issues, and provide a welcoming and positive employee experience;
- ensuring smooth back-end logistics including IT, facilities, and general coordination; and
- a restructured process aligned with adult learning principles that sets out how and when new hires receive information.

Human Resources also made adjustments to IO's performance assessment tool, which now includes standard competencies that are evaluated alongside an employee's annual objectives to appraise an employee's behavior in the delivery of business objectives.

IO's senior leadership team participated in a comprehensive succession planning process. Going forward, the Executive team will annually review the plan, identifying successors for a number of senior level positions.

Investment in employee learning and development continued through 2016-17. IO programs provide 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 policies are high priority to ensure alignment with industry standards and best practices. In 2016-17, IO's Project Delivery group began mandatory site safety training for staff. In addition, IO posted a new Workplace Violence and Harassment policy statement, demonstrating its commitment to ensuring a safe and respectful workplace. Workplace violence risk assessments were completed for all of our office locations, each of which received a "low risk" rating.

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 2016-17, IO employees contributed to raising over $113,000 for United Way Toronto & York Region through cash and payroll donations and a number of special events including employee appreciation chocolate-grams, CN Tower stair climb, an OPS walk/run, pumpkin carving contest, and golf tournament. IO employees also supported local community-based agencies by volunteering their time to sort food and prepare snacks for a youth program.

2016-17 List of Awards

INFRASTRUCTURE ONTARIO

- Gold Award - Government Agency of the Year
- P3 Awards 2016
- P3 Bulletin

BRIDGEPOINT HEALTH

- Governor General's Medal – Architecture
- Royal Architectural Institute of Canada and Canada Council for the Arts

CORKTOWN COMMON

- Honor Award for General Design
- American Society of Landscape Architects

EGLINTON CROSSTOWN LRT

- Silver Award - Best Transit and Aviation Project
- P3 Awards 2016
- P3 Bulletin

FORENSIC SERVICES AND CORONER'S COMPLEX

- Silver Award for Service Delivery
- National Awards for Innovation and Excellence in Public-Private Partnerships
- Canadian Council for Public-Private Partnerships

HUMBER RIVER HOSPITAL

- Global Best Project, Health Care
- Global Best Project Awards
- Engineering News-Record
- Gold Award
- Design Awards
- Modern Healthcare

OAKVILLE TRAFALGAR MEMORIAL HOSPITAL

- Gold Award for Infrastructure
- National Awards for Innovation and Excellence in Public-Private Partnerships
- Canadian Council for Public-Private Partnerships

PAN AM AQUATICS CENTRE, FIELD HOUSE AND CANADIAN SPORT INSTITUTE ONTARIO

- Award of Merit, Sports/Entertainment
- Global Best Project Awards
- Engineering News-Record

PAN/PARAPAN AMERICAN ATHLETES' VILLAGE

- Green Award
- Real Estate Excellence Awards
- NAIOP Commercial Real Estate Development Association, Greater Toronto Chapter

REGION OF WATERLOO LIGHT RAIL TRANSIT

- Best Large Project
- Canadian Brownfields Network

ROBINSON PLACE

- Award of Excellence
- Association of Consulting Engineering Companies

THUNDER BAY COURTHOUSE

- Gold Award
- Clean, Green & Beautiful Awards
- City of Thunder Bay

W. ROSS MACDONALD SCHOOL - SENIOR STUDENT RESIDENCE FOR THE BLIND AND DEAF-BLIND

- Sustainable Concrete Construction
- Ontario Concrete Awards

2016 / 2017
Financial Reports

Ontario Infrastructure and Lands Corporation

OVERVIEW

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

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

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

Real Estate provides comprehensive asset management services for government owned and leased properties, which includes providing end to end real estate accommodation options to client ministries to ensure safe and secure operations through asset management, capital planning and project management solutions. It also provides strategic asset planning services to the Ministry of Infrastructure (MOI), to maximize the value of government assets through portfolio planning, 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), for which IO is the financial manager.

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

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

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

This Management Discussion and Analysis (MD&A) is intended to provide an overview of IO's financial activities for the year ended March 31, 2017, and should be read in conjunction with the financial statements for the year ended March 31, 2017 and related notes.

OPERATING RESULTS

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

MAJOR PROJECTS

YEAR-ENDED MARCH 31, 2017 VS. BUDGET

Major Projects reported a surplus of $0.3 million for the year, a favourable variance of $0.5 million compared to the budget deficit of $0.2 million.

REVENUES

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

Revenues for the year, excluding project transaction fees and recoverable advisory cost revenues, were $31.2 million, an unfavourable variance of $0.9 million compared to the budget of $32.1 million.

- The unfavourable variance was primarily due to lower project delivery fee revenue recognized on projects with a letter of direction (LOD), including the MacDonald Block, Highway 7, and Ontario Provincial Police Modernization Phase 2 projects. The lower revenue is a consequence of lower costs incurred during the year, which has an offsetting favourable variance.
- Project transaction fees were $7.5 million for the year, an unfavourable variance of $7.7 million compared to the budget of $15.2 million. Project transaction margin (project transaction fees net of project transaction costs) had a $0.4 million unfavourable variance to budget. This was primarily due to two social projects - St. Michael's Hospital and Joseph Brant Memorial Hospital, where the transaction margins were fully recognized in prior years and legal invoices that were in dispute were paid during the current year.
- 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). Due to the nature and variability on annual spend, IO does not budget for ancillary costs or revenues.
  Ancillary costs includes the following expenditures:
  1. Technical advisors/consultants that assist throughout the life of the project (designers, architects, and engineers).
  2. Contingencies for unforeseen expenditures and discretionary variations on civil and non-hospital social projects.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

PROGRAM EXPENSES

Program expenses for the year were recoverable and consisted of the following:

- Project transaction costs were $7.9 million for the year, a favourable variance of $7.3 million compared to the budget of $15.2 million. Project transaction margin is explained in "project transaction fees" above.
- Recoverable advisory costs were $17.9 million for the year and were not budgeted. Recoverable advisory costs are explained in "recoverable advisory costs" above.

YEAR-ENDED MARCH 31, 2017 VS. MARCH 31, 2016

Major Projects reported a surplus of $0.3 million for the year, an increase of $1.0 million compared to the deficit of $0.7 million in the prior year.

REVENUES

Revenues for the year, excluding project transaction fees and recoverable advisory cost revenues, were $31.2 million, an increase of $7.7 million compared to $23.5 million in the prior year.

- The increase in revenue was primarily due to a larger number of civil projects in the current year, including the Regional Express Rail and Hamilton LRT projects. Civil projects are generally larger in scale and require more resources compared to social projects, which results in higher project delivery fees. Additionally there are a higher number of social projects in the transaction stage, including the MacDonald Block and Roy McMurtry Youth Center & Brookside projects.
- Project transaction fees were $7.5 million for the year, a decrease of $3.7 million compared to $11.2 million in the prior year. The prior year results included a $5.8 million favourable transaction margin, as a result of milestones achieved on certain projects which resulted in recognition of the remaining transaction margin.
- Recoverable advisory costs were $17.9 million for the year, a decrease of $2.9 million compared to $20.8 million in the prior year. Recoverable advisory costs vary depending on the nature and stage of the project.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

PROGRAM EXPENSES

Project transaction costs for the year were $7.9 million, an increase of $2.5 million compared to $5.4 million in the prior year. The increase is primarily due to a larger number of AFP projects in the transaction stage compared to the prior year.

REAL ESTATE

YEAR-ENDED MARCH 31, 2017 VS. BUDGET

Real Estate reported a surplus of $2.3 million for the year, a favourable variance of $1.6 million compared to the budget surplus of $0.7 million.

REVENUES

Revenues for the year were $58.4 million, a favourable variance of $1.4 million compared to the budget of $57.0 million.

- Management fees include funding from GREP for asset management, facilities management oversight and realty services in addition to revenue from the Hydro Lands transmission corridor program, and post-AFP operations. Management fees were $54.6 million for the year, an unfavourable variance of $0.4 million compared to the budget of $55.0 million, primarily due to a deferred start on the MacDonald Block project.
- Other income consists of lease commission rebates from CB Richard Ellis (CBRE). During the year $3.0 million in revenue was recognized, a favourable variance of $1.0 million compared to the budget of $2.0 million, primarily due to two deals that were completed earlier than anticipated related to the MacDonald Block project. As part of the outsourced CBRE contract, IO is entitled to 50% of the brokerage commission earned by CBRE after meeting all associated expenses.
- Project transaction fees of $0.7 million were recognized in the year. This revenue was a flow through of the project transaction costs under program expenses, which includes third party advisor costs on the following projects: Elora Research Station, New Liskeard Research Station, and Community Hubs.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

PROGRAM EXPENSES

Program expenses for the year were $10.4 million, an unfavourable variance of $0.5 million compared to the budget of $9.9 million.

- Sub-contracting fees are paid to CBRE who has been contracted by IO to provide operational facility management services. Sub-contracting fees for the year were $9.7 million, a favourable variance of $0.2 million compared to the budget of $9.9 million.
- Project transaction costs were $0.7 million for the year and fully recoverable as explained in "project transaction fees" above.

YEAR-ENDED MARCH 31, 2017 VS. MARCH 31, 2016

Real Estate reported a surplus of $2.3 million for the year, a decrease of $4.0 million compared to the surplus of $6.3 million in the prior year.

REVENUES

Revenues for the year were $58.4 million, an increase of $1.4 million compared to $57.0 million in the prior year.

- Management fees were $54.6 million for the year, an increase of $2.1 million compared to $52.5 million in the prior year. This is primarily due to revenues from the MacDonald Block and Community Health Care Centre projects which are new projects engaged during the year.
- Other income was $3.0 million for the year, a decrease of $1.6 million compared to $4.6 million in the prior year. The prior year other income primarily consisted of the CBRE lease commission rebates, including a one-time recognition catch up from previous years.
- Project transaction fees were $0.7 million for the year, an increase of $0.7 million compared to the prior year. During the year, a number of new services were performed for clients on projects including: Cancer Care Ontario, Community Health Care Centres and Trillium Gift of Life. Project transaction fees are a flow through of project transaction costs.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

PROGRAM EXPENSES

Program expenses for the year were $10.4 million, an increase of $0.6 million compared to $9.8 million in the prior year.

- Sub-contracting fees paid to CBRE in the year were $9.7 million, a decrease of $0.1 million compared to $9.8 million in the prior year.
- Project transaction costs were $0.7 million for the year and fully recoverable as explained in "project transaction fees" above.

LENDING

YEAR-ENDED MARCH 31, 2017 VS. BUDGET

Lending reported a surplus of $11.5 million for the year, a favourable variance of $8.3 million compared to the budget surplus of $3.2 million.

The net interest margin (NIM) for the year was $22.0 million, a favourable variance of $1.0 million compared to the budget of $21.0 million.

($ millions)		Actuals	Budget	Variance
Interest revenue	$	218.8	217.8	1.0
Interest expense		(196.8)	(196.8)	-
NIM	**$**	**22.0**	**21.0**	**1.0**

NIM was $1.0 million favourable to budget primarily due to:

- Higher NIM from net loan growth and higher cash balances ($32.0 million greater average than budget) and higher yield.
- Higher revenue on the Royal Conservatory of Music (RCM) loan due to timing of the loan restructuring, leading to interest earned on a higher loan balance.

Other income was $8.1 million for the year that consisted of the following:

- Early loan repayment penalties of $6.6 million on two loans: Trent University and Wexford Residence.
- A loan recovery of $1.2 million on the Brantford Generation Inc. (BGI) loan. The City of Brantford repaid $3.2 million on the overall outstanding loan for BGI, which reduced the principal loan balance from $11.9 million to $8.7 million. IO had provisioned $9.9 million in prior years. As a result, a $1.2 million recovery was recognized during the year.
- The Federal and Provincial governments announced in September 2016 an agreement to provide $1.1 billion in combined funding under the Clean Water and Wastewater Fund (CWWF) program. IO is administrating the CWWF program on behalf of MOI on a cost recovery basis, in which IO has received a LOD from MOI for this work. IO has earned fees of $0.3 million during the year.

IO's loan valuation allowance for the year was $11.2 million, an increase of $1.2 million compared to the budget of $10.0 million. During the second quarter, an independent third party (Deloitte) was retained to develop an analytical model to estimate the general loan allowance based on the characteristics of the risk profiles of IO's lending sectors and market observable data. As a result, IO has provisioned $11.2 million in the current year.

YEAR-ENDED MARCH 31, 2017 VS. MARCH 31, 2016

Lending reported a surplus of $11.5 million for the year, an increase of $16.5 million compared to the prior year deficit of $5.0 million.

NIM was $22.0 million, an increase of $5.8 million compared to the prior year of $16.2 million.

($ millions)		March 31, 2017	March 31, 2016	Variance
Interest revenue	$	218.8	206.8	12.0
Interest expense		(196.8)	(190.6)	(6.2)
NIM	**$**	**22.0**	**16.2**	**5.8**

The increase in NIM by $5.8 million is primarily due to:

- A one-time adjustment in the prior year to correct and reduce the accrued interest revenue related to the pre-restructured RCM loan by $4.6 million.
- Higher NIM from net loan growth and higher cash balances after $520.0 million reduction of the liquidity reserve.

Other income for the year was $8.1 million, an increase of $6.6 million compared to the prior year income of $1.5 million, primarily due to a large early loan repayment penalty from Trent University, a loan recovery on the BGI loan, and fees earned on the CWWF program.

IO's loan valuation allowance for the year was $11.2 million, a decrease of $4.3 million compared to the prior year of $15.5 million. The prior year's allowance included a specific loan provision of $15.0 million for the RCM loan and a general loan provision of $0.5 million. In the current year, the entire provision relates to the general loan loss provision.

COMMERCIAL PROJECTS

YEAR-ENDED MARCH 31, 2017 VS. BUDGET

Commercial Projects reported a deficit of $1.7 million for the year, an unfavourable variance of $1.1 million compared to the budget deficit of $0.6 million.

REVENUES

Revenues for Commercial Projects is recognized on a cost recovery basis determined and agreed to at the inception of each project. Revenues for the year, excluding recoverable project transaction fees, were $2.3 million, an unfavourable variance of $1.4 million compared to the budget of $3.7 million, attributable to the following:

- Lower revenues on three projects: the Ontario Business Information System and Treasury Board's Alternative Service Delivery were both delayed, and the cancellation of the Ontario Retirement Pension Plan project. This was partially offset by greater revenues on the Ontario Place Urban Park & Waterfront project.
- Project transaction fees were $18.5 million for the year. Generally project transaction fees are a flow through of the project transaction costs under program expenses, which includes third party advisor costs on the following projects: the Ontario Retirement Pension Plan and the Ontario Place Urban Park & Waterfront project. Project transaction margin was $0.1 million unfavourable due to a write-off of a project receivable from a prior year, which was deemed uncollectible.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

YEAR-ENDED MARCH 31, 2017 VS. MARCH 31, 2016

Commercial Projects reported a deficit of $1.7 million for the year, a decrease of $0.6 million compared to the deficit of $1.1 million in the prior year.

REVENUES

Revenues for the year, excluding recoverable project transaction fees, were $2.3 million, a decrease of $1.6 million compared to $3.9 million in the prior year.

- The lower revenues were primarily due to fewer active projects in the current year. The Ontario Retirement Pension Plan was cancelled by June 30, 2016, and two projects were deferred: the Ontario Business Information System and Treasury Board's Alternative Service Delivery.
- Project transaction fees for the year were $18.5 million, a decrease of $2.8 million compared to $21.3 million in the prior year. The lower revenues were primarily due to fewer development projects during the year, which resulted in a reduction of external advisor costs.

CORPORATE OPERATING EXPENSES

Refer to page 38 for a discussion of IO's consolidated results on salaries and benefits, and general and administration expenses.

CORPORATE OPERATING EXPENSES

YEAR-ENDED MARCH 31, 2017 VS. BUDGET

SALARIES AND BENEFITS

Salary and benefit expenses for the year were $68.2 million, a favourable variance of $1.3 million compared to the budget of $69.5 million. The average number of employees were 502 compared to the budget target of 515. The need for resources is evaluated on a case by case basis. Incremental positions are approved on the merits of a business case prepared to support the increase.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the year were $19.4 million, a favourable variance of $1.9 million compared to the budget of $21.3 million. The favourable variance is primarily due to lower spending on professional and consulting services across all business lines, offset by higher spending on information technology related to third party management services and development work.

YEAR-ENDED MARCH 31, 2017 VS. MARCH 31, 2016

SALARIES AND BENEFITS

Salary and benefit expenses for the year were $68.2 million, $4.4 million higher than prior year's $63.8 million. The average number of employees were 502 compared to the prior year of 483. The increase in the number of employees is to support project growth in the Major Projects and Real Estate business lines.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses for the year were $19.4 million, $0.1 million higher than prior year's $19.3 million. This is due to higher expenses on information technology, offset by lower expenses on professional and consulting services, and office expenditures including rent.

STATEMENT OF FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include money market investments. At March 31, 2017, cash and cash equivalents were $486.0 million, a decrease of $647.3 million from a March 31, 2016 balance of $1,133.3 million. The decrease is primarily due to $502.0 million of money market investments that were liquidated during the year to repay the loan from the Province. In addition, the Toronto Community Housing Corporation (TCHC) redeemed funds held in the loan trust account for $165.5 million, after fulfilling conditions for disbursement under their loan agreements.

LIQUIDITY RESERVE

IO has a $400.0 million liquidity reserve funded by a $280.0 million subordinated 50-year loan from the Province of Ontario (Province) and a $120.0 million subordinated 20-year loan from the Ontario Clean Water Agency (refer to note 9 of the financial statements). During the year, $520.0 million was repaid on the loan from the Province. As a result, the liquidity reserve was reduced from $920.0 million to $400.0 million. Funds from the loans are invested in $222.5 million in cash and $177.5 million in investments, providing credit protection to all lenders.

ACCOUNTS RECEIVABLE

At March 31, 2017, accounts receivable were $35.6 million, a decrease of $5.3 million from March 31, 2016 balance of $40.9 million. The majority of accounts receivable are related to AFP projects.

LOANS RECEIVABLE AND DEBT – LOAN PROGRAM

At March 31, 2017, loans receivable were $5,661.6 million, an increase of $436.4 million from $5,225.2 million at March 31, 2016. Loans issued in the year were $810.3 million and the amortization of concessionary loans of $6.5 million resulted in the increase in loans receivable, these were offset by $369.2 million loan repayments and a loan valuation allowance of $11.2 million.

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

- Repaid $520.0 million on the loan from the Province.
- Net repayment $115.0 million on the short-term revolving credit facility to the Province.
- Repaid $185.3 million on the Ontario Immigrant Investor Corporation loans as they came due.
- Repaid $40.0 million on the Ontario Infrastructure Projects Corporation and Ontario Infrastructure and Lands Corporation bonds to the Province.
- Net borrowed $783.6 million on the long-term non-revolving credit facility to fund long term loans.

LOAN VALUATION ALLOWANCE

The loan valuation allowance is comprised of a general and a specific valuation provision. The general valuation allowance is a provision for losses on the existing loan portfolio which are considered to be likely in the future, but are not yet known and cannot be determined for any specific loan. Historically, the general valuation allowance was based on the default rate for the loans using Moody's 'Non-government Organization default and loan loss rates' with adjustments made by management. As a result of the revised model developed by Deloitte, IO provisioned $11.2 million in the year. The total general loan allowance is $18.5 million as at March 31, 2017 ($7.3 million as at March 31, 2016).

The specific valuation allowance is a provision of probable identifiable losses on existing loans. During the year, two specific loan provisions were written off for a total of $24.9 million. There were no specific loan provisions as at March 31, 2017 ($24.9 million as at March 31, 2016).

PROJECTS RECEIVABLE

At March 31, 2017, projects receivable were $45.1 million, a decrease of $0.7 million compared to $45.8 million at March 31, 2016. For certain projects, based on the contract, IO does not invoice the project delivery fees until a set milestone is met, including projects such as Mackenzie Health, the Centre for Addiction and Mental Health and Toronto Regional Courthouse.

INVESTMENTS

At March 31, 2017, investments were $177.5 million, consistent with the balance as at March 31, 2016.

DERIVATIVES

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

At March 31, 2017, the fair value of IO's derivative assets and liabilities were $283.3 million and $371.0 million, respectively. The difference between the two amounts of $87.7 million is highlighted on the Statement of Re-Measurement Gains and Losses as an accumulated unrealized loss. The unrealized loss decreased by $60.0 million from $147.7 million at March 31, 2016. This is primarily due to the increase in interest rates by an average of 50 bps during the year in the Canadian yield curve. Since IO has a greater notional value of asset swaps compared to liability swaps, IO's swaps are more favourable in a rising interest rate environment, resulting in the large re-measurement gain during the year.

ACCOUNTS PAYABLE

At March 31, 2017, accounts payable were $3.9 million, a decrease of $2.2 million from $6.1 million at March 31, 2016. The current outstanding balance includes $3.5 million for HST payable to the Canada Revenue Agency and $0.4 million payable to third party vendors.

ACCRUED LIABILITIES

At March 31, 2017, accrued liabilities were $27.0 million, a decrease of $0.7 million from the March 31, 2016 balance of $27.7 million. The current outstanding balance includes the following: $17.2 million for corporate accruals including salaries/benefits, vacation, and other operating expenses, and $9.8 million for project advisory costs accruals.

LIABILITIES HELD IN TRUST

At March 31, 2017, liabilities held in trust were $75.2 million, a decrease of $173.1 million from $248.3 million at March 31, 2016. The decrease is primarily due to a net redemption of $165.5 million from TCHC in the loan trust account, after fulfilling conditions for disbursement under their loan agreements.

DEFERRED REVENUE

Based on agreements with certain clients, IO invoices and recovers project costs based on periodic payment schedules, irrespective of the work performed. The amounts are reported as deferred revenue until the work is performed and are recognized into revenue based on IO's revenue recognition policy. At March 31, 2017, deferred revenue was $25.7 million, an increase of $8.9 million from a March 31, 2016 balance of $16.8 million due to the timing of invoicing on certain projects relative to revenues incurred to date. The majority of deferred revenue are related to AFP projects.

2016 / 2017

Financial Statements

For the years ended March 31, 2017 and 2016

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June 22, 2017

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, 2017 and the statement of operations and accumulated surplus, re-measurement gains and losses, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation as at March 31, 2017 and the results of its operations, its re-measurement gains and losses, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Responsibility for Financial Reporting

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

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

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

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

On behalf of management,

Ehren Cory
President and Chief Executive Officer

Krishnan Iyer
Executive Vice President Lending and Chief Financial Officer

Infrastructure Ontario – Statement of Financial Position

As at March 31 (in thousands of dollars)

	March 31 2017	March 31 2016
Financial assets		
Cash and cash equivalents (Note 2)	$ **486,028**	$ 1,133,337
Accounts receivable (Note 3)	**35,620**	40,900
Interest receivable	**45,906**	64,721
Investment income receivable	**1,779**	1,851
Loans receivable (Note 4)	**5,661,622**	5,225,176
Derivatives (Note 5)	**283,271**	406,576
Projects receivable (Note 6)	**45,086**	45,843
Investments (Note 7)	**177,505**	177,505
	6,736,817	7,095,909
Liabilities		
Accounts payable	**3,891**	6,111
Accrued liabilities	**27,024**	27,668
Liabilities held in trust (Note 18)	**75,244**	248,258
Interest payable	**67,302**	73,892
Derivatives (Note 5)	**371,019**	554,354
Deferred revenue	**25,696**	16,839
Debt - loan program (Note 9)	**6,068,840**	6,144,550
	6,639,016	7,071,672
Net financial assets	**97,801**	24,237
Non-financial assets		
Tangible capital assets (Note 10)	**1,934**	3,042
	99,735	27,279
Accumulated surplus	**187,483**	175,057
Accumulated re-measurement losses	**(87,748)**	(147,778)
	$ 99,735	$ $27,279

Contingencies (Note 16)

Commitments (Note 17)

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

Approved

Board Chair

Director, Audit Committee

Infrastructure Ontario – Statement of Operations and Accumulated Surplus

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

	2017 Budget	2017	2016 (note 20)
Revenues			
Interest revenue (Note 11)	$ 217,801	**$ 218,812**	$ 206,786
Project delivery fees	35,780	**33,553**	27,417
Project transaction fees	15,249	**26,740**	32,508
Management fees	55,043	**54,633**	52,469
Recoverable advisory costs	-	**17,946**	20,803
Other income	2,000	**11,114**	6,034
	325,873	**362,798**	346,017
Expenses			
Salaries and benefits	69,518	**68,164**	63,758
General and administration (Note 12)	21,323	**19,386**	19,311
Program expenses			
Project transaction costs	15,249	**27,198**	26,701
Recoverable advisory costs	-	**17,946**	20,803
Interest expense (Note 11)	196,780	**196,769**	190,623
Sub-contracting fees	9,855	**9,678**	9,781
Loan valuation allowance	10,000	**11,231**	15,492
Project funding expenses	-	**-**	48
Total program expenses	231,884	**262,822**	263,448
	322,725	**350,372**	346,517
Surplus / (deficit)	3,148	**12,426**	(500)
Accumulated surplus, beginning of year	175,057	**175,057**	175,557
Accumulated surplus, end of year	$ 178,205	**$ 187,483**	$ 175,057

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)

		2017		2016
Accumulated re-measurement losses, beginning of year	**$**	**(147,778)**	$	(132,061)
Realized losses – reclassified to the Statement of Operations		**39,562**		41,138
Re-measurement gains/(losses)		**20,468**		(56,855)
Net re-measurement gains/(losses) in the year		**60,030**		(15,717)
Accumulated re-measurement losses, end of year	**$**	**(87,748)**	$	(147,778)

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)

		2017		2016
Surplus/(deficit)	$	**12,426**	$	(500)
Acquisition of tangible capital assets		**(514)**		(958)
Amortization of tangible capital assets		**1,622**		1,937
Net re-measurement gains/(losses) in the year		**60,030**		(15,717)
Net change in net financial assets		**73,564**		(15,238)
Net financial assets at beginning of year		**24,237**		39,475
Net financial assets at end of year	$	**97,801**	$	24,237

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)

		2017		2016 (note 20)
Operating activities				
Surplus/(deficit)	$	**12,426**	$	(500)
Items not requiring a current cash outlay:				
Loan valuation allowance		**11,231**		15,492
Amortization of deferred concession costs		**(6,580)**		(7,327)
Amortization of tangible capital assets		**1,622**		1,937
		18,699		9,602
Changes in non-cash working capital items:				
Decrease in accounts receivable		**5,280**		64,662
Decrease/(increase) in interest receivable		**18,815**		(755)
Decrease in projects receivable		**757**		18,360
Decrease in accounts payable		**(2,220)**		(1,584)
Decrease in accrued liabilities		**(644)**		(6,927)
(Decrease)/increase in liabilities held in trust		**(173,014)**		183,446
(Decrease)/increase in deferred revenue		**8,857**		(3,052)
Cash (used in)/provided by operating activities		**(123,470)**		263,752
Capital activities				
Acquisition of tangible capital assets		**(514)**		(958)
Cash used in capital activities		**(514)**		(958)
Investing activities				
Decrease in investment income receivable		**72**		322
Proceeds from disposition of investments		**-**		37,706
Issuance of loans receivable		**(810,290)**		(771,786)
Loan repayments		**369,193**		335,782
Cash used in investing activities		**(441,025)**		(397,976)
Financing activities				
(Decrease)/increase in interest payable		**(6,590)**		1,194
Repayment of OFA credit facility		**-**		(10,000)
Repayment of short term revolving credit facility		**(115,000)**		(250,000)
Debt issuances		**819,408**		1,265,786
Debt repayments		**(780,118)**		(823,288)
Cash (used in)/provided by financing activities		**(82,300)**		183,692
Net (decrease)/increase in cash and cash equivalents		**(647,309)**		48,510
Cash and cash equivalents, beginning of year		**1,133,337**		1,084,827
Cash and cash equivalents, end of year	$	**486,028**	$	1,133,337

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

NATURE OF THE CORPORATION

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

The mandate of Infrastructure Ontario includes the following:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Management estimates

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

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

Financial instruments

Infrastructure Ontario's financial assets include cash and cash equivalents, accounts receivable, interest receivable, investment income receivable, loans receivable, derivatives, projects receivable, and investments. Infrastructure Ontario's financial liabilities include accounts payable, accrued liabilities, interest payable, derivatives, and the debt supporting the loan program.

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on deposit with a maturity less than three months and highly liquid investments that 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

Interest on investments and loans receivable 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

($ thousands)		2017		2016
Cash	**$**	**486,028**	$	631,653
Cash equivalents		**-**		501,684
	$	**486,028**	$	1,133,337

Cash includes funds held in trust for Infrastructure Ontario's lending clients of $55.4 million (2016 - $220.3 million) and project construction consortiums of $19.8 million (2016 - $27.9 million), detailed further in Note 18.

Cash equivalents includes money market investments recorded at cost, which closely approximates fair value. The money market investments were liquidated during the year to repay $520 million of the Province of Ontario loan, detailed further in Note 9.

3. ACCOUNTS RECEIVABLE

($ thousands)		2017		2016
Trade accounts receivable	**$**	**34,713**	$	38,136
HST receivable		**907**		2,764
	$	**35,620**	$	40,900

4. LOANS RECEIVABLE

($ thousands)		2017			2016	
Construction advances						
Infrastructure renewal loan program	**$**	**349,328**		$	413,315	
Debentures receivable			**Interest %**			Interest %
Concessionary loan program						
Maturity terms:						
6 to 10 years		**14,150**	**2.08-2.71**		24,971	2.08-2.71
11 to 15 years		**25,385**	**2.28-2.67**		30,687	2.28-2.67
16 to 20 years		**234,136**	**2.36-2.95**		257,059	2.36-2.95
Greater than 20 years		**58,536**	**2.52-3.05**		61,337	2.52-3.05
		332,207			374,054	
Infrastructure renewal loan program						
Maturity terms:						
1 to 5 years		**45,048**	**1.18-4.55**		98,450	1.18-4.55
6 to 10 years		**665,754**	**1.52-5.73**		595,603	1.52-5.73
11 to 15 years		**678,568**	**2.24-5.26**		583,955	2.24-5.26
16 to 20 years		**1,411,196**	**2.71-5.89**		1,268,622	2.71-5.89
Greater than 20 years		**2,234,573**	**2.77-5.91**		1,966,282	2.77-5.91
		5,035,139			4,512,912	
Total		**5,716,674**			5,300,481	
Deferred costs on concessionary loans						
Deferred costs, beginning of year		**(43,083)**			(50,410)	
Amortization of concession costs		**6,580**			7,327	
Deferred costs, end of year		**(36,503)**			(43,083)	
Loan valuation allowance		**(18,549)**			(32,222)	
Loans receivable	**$**	**5,661,622**		$	5,225,176	

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

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

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

The loan valuation allowance is based on an assessment of existing economic, industry and portfolio conditions which may indicate that a loan is impaired or losses will be incurred. At March 31, 2017, Infrastructure Ontario has a loan valuation allowance of $18.5 million (2016 - $32.2 million).

5. DERIVATIVES

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

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

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2017, based on the notional amounts of the contracts. The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Statement of Financial Position. They represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows of such instruments.

		Maturity					
($ thousands)		Within 1 Year	2 to 5 Years	6 to 10 Years	11 to 15 Years	Over 15 Years	Total Notional Value
Debt	$	262,500	808,982	670,600	-	852,857	2,594,939
Loans receivable	$	273,787	1,081,489	1,094,819	637,024	812,773	3,899,892

Derivatives are recorded at fair value as at March 31, 2017 resulting in derivative assets of $283.3 million, derivative liabilities of $371.0 million and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $87.7 million (2016 – 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). Fair values for both were determined using level 2 basis of valuation as defined in Note 1.

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

As at March 31, 2017, all interest rate swap agreements are with the Province. In January 2017, a swap held with MaRS, a former borrower of the lending program, was cancelled through an arrangement with the Ministry of Research and Innovation, with no change to the surplus/deficit in the Statement of Operations and Accumulated Surplus.

6. PROJECTS RECEIVABLE

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

7. INVESTMENTS

Investments consist of bonds carried at cost. As at March 31, 2017, the interest rates on these investments ranged from 2.10% to 4.40% (2016 – 2.10% to 4.40%) with 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. As at March 31, 2017, the full balance of the credit facility remains undrawn.

9. DEBT – LOAN PROGRAM

($ thousands)		2017			2016	
Program funding			**Interest %**			Interest %
Senior debt						
Infrastructure Renewal Bonds	**$**	**300,000**	**4.70**	$	300,000	4.70
Subordinate debt						
Short-term revolving credit facility		**370,000**	**0.68-0.69**		485,000	0.60-0.74
Ontario Immigrant Investor Corporation loans						
Fixed		**195,440**	**1.86-2.64**		337,872	1.86-2.99
Floating		**155,144**	**1.55**		198,052	1.55
OIPC/OILC bonds						
Fixed		**2,315,000**	**2.02-4.96**		2,355,000	2.02-4.96
Floating Rate Notes		**300,000**	**1.10-1.16**		300,000	1.06-1.12
Long-term non-revolving credit facility						
Fixed		**1,580,243**	**1.21-3.58**		796,683	1.21-3.58
Floating Rate Note		**460,000**	**1.39**		460,000	1.35
		5,675,827			5,232,607	
Debt issue costs		**(6,668)**			(7,738)	
Capital funding						
Province of Ontario loan		**279,681**	**0.67**		799,681	0.62
Ontario Clean Water Agency loan		**120,000**	**0.91**		120,000	0.87
		399,681			919,681	
	$	**6,068,840**		$	6,144,550	

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

Infrastructure Renewal Bonds

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

Short-term Revolving Credit Facility

Effective May 2014, Infrastructure Ontario issues short term notes under a short term revolving credit facility to fund its short term construction loans. The revolving credit facility with the Province is authorized to issue a maximum of $900 million for terms ranging from three months to one year. As at March 31, 2017, maturities ranged from April 3, 2017 to June 15, 2017, while interest on the notes ranged from 0.68% to 0.69% (2016 – 0.60% to 0.74%).

Ontario Immigrant Investor Corporation Loans

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

As at March 31, 2017, interest on fixed rate bonds ranged between 1.86% and 2.64% (2016 –1.86% to 2.99%) compounded semi-annually and paid on maturity. Maturities ranged from April 2017 to July 2019. Interest on bonds bearing a variable rate of interest is reset and compounded quarterly with a floor rate of 1.55% (2016 –1.55%) per annum. Maturities ranged from April 2017 to January 2019.

OIPC / OILC Bonds

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

As at March 31, 2017, interest on fixed rate bonds ranged from 2.02% to 4.96% (2016 – 2.02% to 4.96%) per annum and maturities ranged from September 2017 to June 2045. Interest is paid semi-annually on these bonds until maturity. The Floating Rate Notes (FRN) 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.

Long-term Non-Revolving Credit Facility

In April 2015, Infrastructure Ontario began funding long term loans on a back to back basis directly with the Province through a long term non-revolving credit facility. The new debt structures mirror the underlying loans receivable they fund and have similar terms including maturity, payment frequency and type of amortization. This funding structure creates a match between the assets and liabilities and eliminates the need to use derivatives to hedge interest rate risks. In November 2016, Infrastructure Ontario was approved to borrow an additional $2.5 billion from the Province for the purposes of funding the loan program from November 2016 to November 2018. As at March 31, 2017, $2.0 billion of the facility is available and undrawn.

As at March 31, 2017, interest with fixed rates on the back to back loans ranged from 1.21% to 3.58% (2016 – 1.21% to 3.58%) and maturities ranged from May 15, 2019 to March 1, 2047. The FRN bears interest from three month CDOR plus 45 basis points and the maturity of the note is June 30, 2025. Interest is reset and paid quarterly until the maturity of the FRN.

Province of Ontario Loan

The Province provided Infrastructure Ontario with a 50 year subordinated loan of approximately $800 million in exchange for a promissory note that matures on March 31, 2053. During the year, $520 million was permanently repaid. The interest on the note is reset quarterly at the Province's three-month Treasury bill rate and payable quarterly. On March 31, 2017, interest on the note was reset at 0.67% (2016 – 0.62%).

Ontario Clean Water Agency Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province, provided a twenty-year subordinated loan of $120 million to Infrastructure Ontario secured by a promissory note due on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the one month Canadian Dollar Offered Rate (CDOR) payable quarterly. On March 31, 2017, interest on the note was reset at 0.91% (2016 – 0.87%).

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

10. TANGIBLE CAPITAL ASSETS

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

		Year ended March 31, 2016				
($ thousands)		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

11. INTEREST INCOME (EXPENSE)

($ thousands)		2017		2016 (note 20)
Interest revenue	$	**218,812**	$	206,786
Interest expense		**(196,769)**		(190,623)
Net interest margin	$	**22,043**	$	16,163

The breakdown of interest expense on debt is as follows:

Capital funding	$	**(3,172)**	$	(5,251)
Province of Ontario loan		**(1,041)**		(1,011)
Ontario Clean Water Agency loan		**(4,213)**		(6,262)
Program funding				
Infrastructure Renewal Bonds		**(14,048)**		(19,000)
Short-term revolving credit facility		**(3,095)**		(4,155)
Ontario Immigrant Investor Corporation Loans		**(9,395)**		(12,595)
OIPC/OILC Bonds		**(86,776)**		(89,159)
Long-term non-revolving credit facility		**(38,610)**		(16,956)
		(151,924)		(141,865)
Interest rate swap net payment		**(39,562)**		(41,138)
Debt issue cost amortization		**(1,070)**		(1,358)
Total interest expense	$	**(196,769)**	$	(190,623)

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

Cash interest received	$	**209,134**	$	199,203
Cash interest paid		**(202,651)**		(187,638)
		6,483		11,565
Non-cash interest				
Amortization of loan concession costs (Note 4)		**6,580**		7,327
Other non-cash interest		**8,980**		(2,729)
Net interest margin	$	**22,043**	$	16,163

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

12. GENERAL AND ADMINISTRATION EXPENSES

($ thousands)	2017 Budget	2017	2016
Information technology	$ 6,891	**$ 7,839**	$ 6,662
Premises	5,116	**4,825**	5,455
Professional and consulting services	5,854	**3,564**	3,813
Office and administration	1,657	**1,323**	1,231
Communications	372	**213**	213
Amortization	1,433	**1,622**	1,937
	$ 21,323	**$ 19,386**	$ 19,311

13. RELATED PARTY TRANSACTIONS

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

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

1. Project delivery fees and project transaction fees
   Fees based on a percentage of project costs or on a cost recovery basis charged for services, including project and contract management, provided to various Ontario Crown Agencies and Ministries.
2. Management fees
   Fees charged for services, including property and project management, provided to the Ministry's General Real Estate Portfolio.
3. Recoverable advisory costs
   Third party adviser services provided to various Ministries and Ontario Crown Agencies on a cost recovery basis.

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

14. FUTURE EMPLOYEE BENEFITS

The Agency provides a defined contribution pension plan for certain full-time employees. The Agency's contribution to this plan for the year ended March 31, 2017 was $3.0 million (2016 – $2.9 million).

The Agency provides pension benefits to certain of its full-time employees through participation in the Public Service Pension Plan, which is a multi employer defined benefit plan established by the Province. The contribution to the pension plan of $0.4 million for the year ended March 31, 2017 (2016 – $0.4 million) is based on formulas set by the Ontario Pension Board and has been expensed. The cost of post-retirement, non-pension employee benefits for these employees is paid by the Ministry of Government Services and is not included in the financial statements.

15. RISK MANAGEMENT

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

Credit risk

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

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

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

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

Infrastructure Ontario's maximum exposure to credit risk on loans receivable, without taking into account any collateral held or other credit enhancements, as at March 31, 2017 was $5,661.6 million.

Infrastructure Ontario classifies and manages its loans by tiers. Tier 1 borrowers have a tax base and/or receive provincial transfers which provide a strong source of debt repayment. Tier 2 borrowers are in sectors that are either regulated or entitled to government based revenue contracts and therefore have a stable source of debt repayment. Tier 3 borrowers are organizations dependent on self generated revenues either by market-set prices or donations and fund raising. The profile of the loans receivable at March 31, 2017 is as follows:

($ thousands)		Outstanding	Loan Valuation Allowance	2017	2016
Tier 1					
Municipalities	$	3,710,988			
City of Toronto (as guarantor)		708,282			
Universities		129,226			
Local service boards		212			
Social housing (with municipal guarantee)		153,159			
Affordable housing (with municipal guarantee)		1,782			
Community health & social service hubs (with municipal guarantee)		3,401			
		4,707,050	**(262)**	**4,706,788**	4,264,931
Tier 2					
Local distribution corporations		264,768			
Long term care		147,043			
Affordable housing (insured by CMHC)[1]		132,175			
Affordable housing (not insured by CMHC)[1]		148,273			
Social housing		9,446			
Aboriginal health access centres		3,176			
Community health & social service hubs		20,371			
		725,252	**(3,483)**	**721,769**	726,853
Tier 3					
Power generators		117,445			
District energy		27,028			
Municipal corporations (other)		31,707			
Beneficial entities (arts training, etc.)		95,863			
Sports and recreation		12,329			
		284,372	**(14,804)**	**269,568**	276,475
Deferred costs on concessionary loans					
Deferred costs, beginning of year		(43,083)			
Amortization of concession costs		6,580			
Deferred costs, end of year		**(36,503)**	**-**	**(36,503)**	(43,083)
Loans receivable	**$**	**5,680,171**	**(18,549)**	**5,661,622**	5,225,176

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

Collateral – loans receivable

Infrastructure Ontario lends on the strength of the applicants' ability to service loan payments over time. The Agency does not lend on a residual asset value basis and does not factor in possession or control of an asset in the evaluation of debt service coverage. It lends on the basis of a strong assurance of permanent sources of cash flow, namely the unique position of many borrowers to generate tax revenue or receive funding from the Province. Infrastructure Ontario mitigates its credit risk from the loan portfolio through various mitigation control provisions.

The Agency has an intercept mechanism with the Province which allows for funds owing to certain borrowers (including municipalities) that receive funding from the Province, to be redirected to Infrastructure Ontario. Clients that do not receive provincial funding are required to provide adequate security such as: guarantees, first ranking mortgage/charge, general security agreement, assignment of rents and leases and assignment of accounts, agreements and collateral.

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

Credit risk – cash, receivable and investments
The maximum exposure to credit risk on the cash, cash equivalents, receivables, derivative assets and investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2017 was:

($ thousands)		2017		Past Due > 90 days
Cash and cash equivalents	$	486,028	$	-
Accounts receivable		35,620		11,622
Interest receivable		45,906		-
Investment income receivable		1,779		-
Projects receivable		45,086		-
Derivative assets		283,271		-
Investments		177,505		-
	$	1,075,195	$	11,622

There is no valuation allowance provided against cash and cash equivalents, receivables, derivative assets and investments as at March 31, 2017.

Market risk

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

Interest rate risk

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

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

Sensitivity to variations in interest rates
The sensitivity of a +/-1% change in the interest rate would have a $1.1 million / ($1.3 million) impact on the annual surplus (deficit); a +/-1 basis point change in the interest rate would have a $0.9 million / ($0.9 million) impact on the accumulated re-measurement gains (losses).

Liquidity risk

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

Infrastructure Ontario's borrowing by-laws are approved by the Board of Directors and the Minister of Infrastructure as well as the Minister of Finance. 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, 2017:

($ thousands)	Within 1 year	1 to 5 years	Over 5 years	Total
Accounts payable	$ 3,891	$ -	$ -	$ 3,891
Accrued liabilities	27,024	-	-	27,024
Liabilities held in trust	75,244	-	-	75,244
Interest payable	67,302	-	-	67,302
Derivative liabilities	-	-	371,019	371,019
Debt – principal and interest	948,426	1,763,853	5,326,993	8,039,272
Total financial liabilities	**$ $1,121,887**	**$ 1,763,853**	**$ 5,698,012**	**$ 8,583,752**

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:

($ thousands) Fiscal year	Amount
2017-2018	$ 4,302
2018-2019	4,861
2019-2020	4,942
2020-2021	5,025
2021-2022	5,260
	$ 24,390

Infrastructure Ontario has $551.4 million of unadvanced loan commitments as at March 31, 2017.

18. FUNDS HELD IN TRUST

Infrastructure Ontario is required by the CMHC to collect property taxes and reserve funds as a condition of providing certain affordable housing loans. As part of the CMHC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. As at March 31, 2017, the funds under administration were $55.4 million (2016 – $220.3 million).

Infrastructure Ontario maintains a project trust general ledger account to record funds received from various ministries and payable to project construction consortiums related to project substantial completion payments, interim payments, as well as payments received for variations, furniture, fixtures and equipment. Variations are changes to scope agreed to after the initial contract has been executed – also called contract change orders. All the above payments are paid directly by the sponsoring ministries, but flow through Infrastructure Ontario. As at March 31, 2017, Infrastructure Ontario held $19.8 million (2016 – $27.9 million) in its project trust general ledger account.

Infrastructure Ontario maintains several operating bank accounts and a short-term investment account which it holds in trust and administers on behalf of the Ministry. These accounts relate directly to the operations of the Ministry's general real estate portfolio, for which the Agency is the financial manager pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011. The funds held in trust for the Ministry as at March 31, 2017 were $234.2 million (2016 – $227.8 million), and are not recorded in these financial statements.

19. SEGMENTED INFORMATION

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

		For the year ended March 31, 2017				
($ thousands)		Major Projects	Real Estate	Lending	Commercial Projects	Total
Revenues						
Interest revenue	$	-	-	218,812	-	218,812
Project delivery fees		31,228	-	-	2,325	33,553
Project transaction fees		7,520	682	-	18,538	26,740
Management fees		-	54,633	-	-	54,633
Recoverable advisory costs		17,946	-	-	-	17,946
Other income		-	3,040	8,074	-	11,114
		56,694	**58,355**	**226,886**	**20,863**	**362,798**
Expenses						
Salaries and benefits		22,566	37,476	4,906	3,216	68,164
General and administration		7,984	8,201	2,495	706	19,386
Program expenses						
Project transaction costs		7,888	682	-	18,628	27,198
Recoverable advisory costs		17,946	-	-	-	17,946
Interest expense		-	-	196,769	-	196,769
Sub-contracting fees		-	9,678	-	-	9,678
Loan valuation allowance		-	-	11,231	-	11,231
Total program expenses		25,834	10,360	208,000	18,628	262,822
		56,384	56,037	215,401	22,550	350,372
Surplus/(deficit)	**$**	**310**	**2,318**	**11,485**	**(1,687)**	**12,426**

($ thousands)		For the year ended March 31, 2017 - Budget				
		Major Projects	Real Estate	Lending	Commercial Projects	Total
Revenues						
Interest revenue	$	-	-	217,801	-	217,801
Project delivery fees		32,067	-	-	3,713	35,780
Project transaction fees		15,249	-	-	-	15,249
Management fees		-	55,043	-	-	55,043
Recoverable advisory costs		-	-	-	-	-
Other income		-	2,000	-	-	2,000
		47,316	**57,043**	**217,801**	**3,713**	**325,873**
Expenses						
Salaries and benefits		24,031	37,209	4,869	3,409	69,518
General and administration		8,233	9,298	2,926	866	21,323
Program expenses						
Project transaction costs		15,249	-	-	-	15,249
Recoverable advisory costs		-	-	-	-	-
Interest expense		-	-	196,780	-	196,780
Sub-contracting fees		-	9,855	-	-	9,855
Loan valuation allowance		-	-	10,000	-	10,000
Total program expenses		15,249	9,855	206,780	-	231,884
		47,513	56,362	214,575	4,275	322,725
Surplus/(deficit)	**$**	**(197)**	**681**	**3,226**	**(562)**	**3,148**

($ thousands)		For the year ended March 31, 2016				
		Major Projects	Real Estate	Lending	Commercial Projects	Total
Revenues						
Interest revenue	$	-	-	206,786	-	206,786
Project delivery fees		23,475	-	-	3,942	27,417
Project transaction fees		11,177	-	-	21,331	32,508
Management fees		-	52,469	-	-	52,469
Recoverable advisory costs		20,803	-	-	-	20,803
Other income		-	4,574	1,460	-	6,034
		55,455	**57,043**	**208,246**	**25,273**	**346,017**
Expenses						
Salaries and benefits		22,737	32,899	4,375	3,747	63,758
General and administration		7,231	8,030	2,706	1,344	19,311
Program expenses						
Project transaction costs		5,370	-	-	21,331	26,701
Recoverable advisory costs		20,803	-	-	-	20,803
Interest expense		-	-	190,623	-	190,623
Sub-contracting fees		-	9,781	-	-	9,781
Loan valuation allowance		-	-	15,492	-	15,492
Project funding expenses		48	-	-	-	48
Total program expenses		26,221	9,781	206,115	21,331	263,448
		56,189	50,710	213,196	26,422	346,517
Surplus/(deficit)	**$**	**(734)**	**6,333**	**(4,950)**	**(1,149)**	**(500)**

20. COMPARATIVE FIGURES

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

The comparative Statement of Operations and Accumulated Surplus, note 11, and note 19 have been reclassified to present the net interest revenue and interest expense earned on interest rate swap transactions.

In addition, the financing activities in the Statement of Cash Flows have been reclassified to separate the short term revolving credit facility.

PURPOSE

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

WHAT WE DO

- MAJOR PROJECTS
- INFRASTRUCTURE LENDING
- REAL ESTATE SERVICES
- COMMERCIAL PROJECTS

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