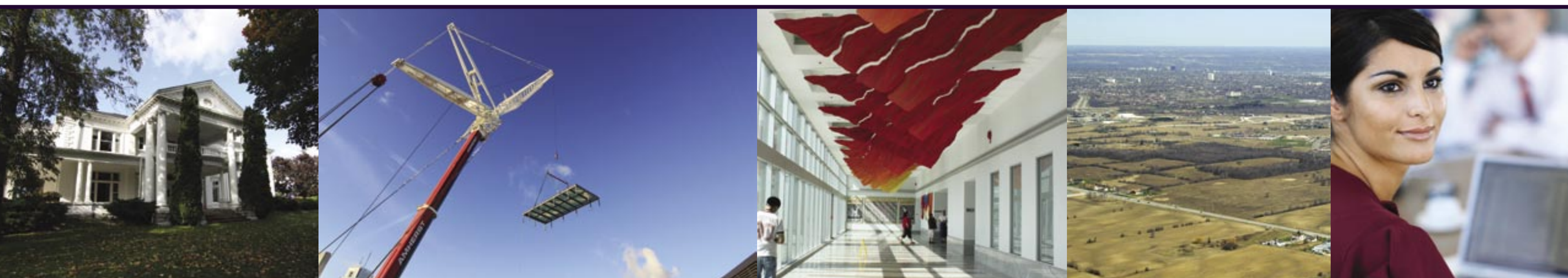

Ontario Realty Corporation

Responsible.

2010-11 Annual Report

Ontario Realty Corporation

Financial Statements

For the year ended **March 31, 2011**

Responsibility for Financial Reporting

The accompanying financial statements of Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA and are the responsibility of management.

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

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

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

On behalf of management,

J. David Livingston
President and Chief Executive Officer

Dale M. Lawr
Chief Financial Officer

Independent Auditor's Report

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

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

I have audited the accompanying financial statements of the Ontario Realty Corporation, which comprise the balance sheet as at March 31, 2011, the statement of operations and retained earnings and statement of cash flows for the year then ended, and a summary of accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibilty is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Realty Corporation as at March 31, 2011 and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary Peall, CA
Deputy Auditor General
Licenced Public Accountant

Toronto, Ontario

June 16, 2011

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Balance Sheet

(in thousands of dollars)

As at March 31		2011		2010 (note 14)
ASSETS				
Current assets				
Cash and cash equivalents (notes 8b and 8c)	$	44,029	$	42,780
Accounts receivable (note 8d)		6,738		5,033
Prepaid expenses		699		1,305
		51,466		49,118
Capital assets (note 4)		4,892		6,516
		56,358		55,634
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$	6,942	$	9,162
Deferred revenue (note 8a)		1,136		774
Provision for severence costs (note 3)		5,666		920
		13,744		10,856
RETAINED EARNINGS		42,614		44,778
		56,358		55,634

Funds held in trust (note 5)
Commitments (note 6)
Contingencies (note 7)

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

On behalf of the Board:

Director: Director: FCA

Statement of Operations and Retained Earnings

(in thousands of dollars)

Year Ended March 31	2011	2010 (note 14)
REVENUE		
Grants (note 8a)	$ 22,545	$ 23,344
Management fees (note 8a)	20,745	24,412
Direct recoverable costs (note 8a)	12,199	15,202
Bank interest and other income (note 8c)	316	126
	55,805	63,084
EXPENSES		
Salaries and benefits (notes 3, 8e and 9)	35,020	42,206
Direct operating expenses (note 8f)	15,227	17,884
Amortization	1,953	2,089
	52,200	62,179
EXCESS OF REVENUE OVER EXPENSES BEFORE SEVERANCE COSTS	3,605	905
Provision for severance costs (note 3)	(5,769)	98
NET (SHORT FALL) EXCESS OF REVENUE OVER EXPENSES	(2,164)	1,003
RETAINED EARNINGS, BEGINNING OF YEAR	44,778	43,775
RETAINED EARNINGS, END OF YEAR	$ 42,614	$ 44,778

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

Statement of Cash Flows

(in thousands of dollars)

Year Ended March 31	2011	2010 (note 14)
Cash flow from operating activities		
Net (shortfall) excess of revenue over expenses	$ (2,164)	$ 1,003
Amortization	1,953	2,089
	(211)	3,092
Changes in non cash working capital		
(Increase) Decrease in accounts receivable	(1,705)	912
Decrease (Increase) in prepaid expenses	606	(399)
(Decrease) in accounts payable and accrued liabilities	(2,220)	(436)
Increase in deferred revenue (note 8a)	362	774
Increase (Decrease) in provision for restructuring costs (note 3)	4,746	(98)
	1,578	3,845
Cash flow from investing activities		
Purchase of capital assets	(329)	(1,075)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,249	2,770
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,780	40,010
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 44,029	$ 42,780

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

Notes to Financial Statements

For the year ended March 31, 2011

(in thousands of dollars)

NATURE OF THE CORPORATION

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

The Corporation is accountable to the Province and provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 47.6 million rentable square feet: 37.1 million owned by the Province and 10.5 million leased from the private sector, as well as 97,520 acres of land owned by the Province (Government Real Estate Portfolio).

As described in Note 12, the Corporation is being amalgamated with Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario Limited. It will continue its operations under the name Ontario Infrastructure and Lands Corporation.

1. BASIS OF PRESENTATION

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applicable to a 'going concern', which assume that the Corporation will continue operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue

Grant received from MOI for in-year corporate expenses is recognized as revenue when costs are incurred.

Management fees and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred and collection is reasonably assured.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, if any, with terms to maturity of no greater than 90 days.

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates include, but are not limited to impairment of long-lived assets and useful lives of capital assets. Actual results could differ from management's best estimates as additional information becomes available in the future.

(in thousands of dollars)

d) Capital Assets

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

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

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

e) Employee Pension Plans

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

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

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

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

f) Financial Instruments, Recognition and Measurement

The following is a summary of the accounting model the Corporation has elected to apply to each of its significant categories of financial instruments outstanding at March 31, 2011:

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

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

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

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

Notes to Financial Statements

For the year ended March 31, 2011

(in thousands of dollars)

3. RESTRUCTURING COSTS

As disclosed in Note 12, Ontario Realty Corporation amalgamated with Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario effective June 6, 2011, continuing as Ontario Infrastructure and Lands Corporation. The purpose of the merger was to rationalize the three similar operations and reduce redundant costs.

During fiscal 2009, the Corporation decided to contract out its regional property and land management services commencing April 2010.

Provision for restructuring costs consist of the following:

			2011			2010
	Corporate Restructuring	Regional Property Management Restructuring	Total	Corporate Restructuring	Regional Property Management Restructuring	Total
Balance at beginning of year	$ -	$ 920	$ 920	-	$ 1,018	$ 1,018
Increase (decrease) in provision	5,732	37	5,769	-	(98)	(98)
Severance payments	(113)	(910)	1,023	-	-	-
Balance end of year	$5,619	$ 47	$5,666	-	$ 920	$ 920

Notes to Financial Statements

For the year ended March 31, 2011

(in thousands of dollars)

4. CAPITAL ASSETS

Capital assets consist of the following:

March 31		2011					2010	
		Cost		Accumulated Amortization		Net Book Value		Net Book Value
Computer hardware	$	9,269	$	8,728	$	541	$	1,306
Custom software		4,153		3,743		410		585
Furniture, fixtures and office equipment		1,072		1,025		47		89
Leasehold improvements		6,536		2,642		3,894		4,536
	$	21,030	$	16,138	$	4,892	$	6,516

5. FUNDS HELD IN TRUST

The Corporation maintains several operating bank accounts and one short-term investment account, which it holds "in trust" and administers on behalf of the Province. They relate directly to the operation of the Government Real Estate Portfolio, including provincially-owned and leased properties. The funds held in trust for the Province are $115,413 (2010 - $173,136).

6. COMMITMENTS

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

For the years ending March 31		
2012	$	2,918
2013		2,932
2014		2,932
2015		3,055
2016		3,079
Therafter		4,719
	$	19,635

7. CONTINGENCIES

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

8. RELATED PARTY TRANSACTIONS

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

The Corporation's prime sources of revenue are:

i. Grants

Pending the implementation of a full fee structure, corporate operating costs incurred by the Corporation are funded by a grant from MOI.

ii. Management Fees

Market-based fees are charged for services provided to Government Real Estate Portfolio for Property and Project Management based on a percentage of project costs.

iii. Direct Recoverable Costs

Certain projects and services are provided to MOI and ministries on a cost recovery basis.

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

c) The *Capital Investment Plan Act* requires that all short-term investments be invested with the Ontario Financing Authority (OFA), a Crown Corporation of the Province, unless the Minister of Finance agrees otherwise. Short-term investments of $33,611 (2010 - $18,411), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of $202 (2010 - $53) is included in Bank interest and other income in the Statement of Operations and Retained Earnings.

d) The Corporation's accounts receivable include $6,365 (2010 - $4,974) from the MOI and other ministries.

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

f) The Corporation's direct operating expenses include accommodation costs of $2,896 (2010 - $2,645) charged by MOI's Government Real Estate Portfolio.

g) As a result of the Corporation's relationship with the Province of Ontario, other related party transactions also exist and have been disclosed in Note 5 - Funds Held in Trust.

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

9. PENSION PLANS

The Corporation's required contributions to pension plans (see note 2e) for the year ended March 31, 2011, were $1,627 (2010 – $1,679) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

10. CAPITAL MANAGEMENT

The Corporation generates positive cash flows from its operations and defines capital as retained earnings of $42,614 (2010 - $44,778). The Corporation's primary objective of managing capital is to safeguard its ability to continue as a going concern and meet its obligations. As outlined in note 8(c), the Corporation is required under the *Capital Investment Plan Act* to invest all short-term investments with the OFA. The Corporation is not subjected to any external capital requirements.

11. FINANCIAL RISK MANAGEMENT

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

Credit risk

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

Cash and cash equivalents

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

Accounts receivable

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

Liquidity Risk

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

Market Risk

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

Foreign exchange

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

Interest rate

The Corporation is exposed to changes in interest rates, which may impact interest revenue on short term investments. As at March 31, 2011, had prevailing interest rates raised or lowered by 1.0 per cent, with all other variables held constant, excess of revenue over expenses would have increased or decreased, respectively, by approximately $434 (2010 - $414).

12. SUBSEQUENT EVENT

Legislation to enact the *Ontario Infrastructure and Lands Corporation Act, 2011* was proclaimed June 6, 2011, amalgamating the Ontario Infrastructure Projects Corporation, Ontario Realty Corporation and Stadium Corporation of Ontario Limited under the name Ontario Infrastructure and Lands Corporation. Separate audited financial statements have been prepared for Ontario Infrastructure Projects Corporation and Stadium Corporation of Ontario for the year ended March 31, 2011.

13. COMPARATIVE FIGURES

Certain figures in the March 31, 2010 financial statements have been reclassified to conform to the basis of presentation for the year ended March 31, 2011.

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