2019-2020

Ontario Infrastructure and Lands Corporation

Annual Report

Infrastructure Ontario

OUR VISION

PARTNERING TO MODERNIZE ONTARIO'S PUBLIC ASSETS

Infrastructure Ontario (IO) is an agency of the Government of Ontario that seeks to modernize the public assets of the province. Everything we do is grounded in the idea that if we work with partners in both the public and private sectors, we can create value for taxpayers in ways that others cannot. This is our vision and what motivates our organization to constantly look for new opportunities to leverage our core skills in pursuit of value.

IO is uniquely positioned within government as the commercial interface between public sector policy and private sector delivery and innovation. Our value to government is in our ability to provide a cross-functional team in the design, execution, and management of programs, projects, and transactions across a broad range of asset types. We have built a reputation of providing evidence-based commercial solutions, applying best practices in the execution of projects and transactions, and effectively managing the government realty portfolio and the IO loan program, all in support of modernizing Ontario's public assets.

Our renewed vision, mission, and values build on our historical mandate while also creating opportunity for IO to have a greater impact in support of government priorities.

Our brand and reputation is being recognized and leveraged across government to further expand our role in developing commercial solutions, executing transactions, and managing assets across new asset classes and sectors, including subways, transit-oriented development, and long-term care facilities. Our skills and experience are being leveraged to optimize government real estate, centralize capital procurement services, and provide strategic advice and commercial solutions for some of government's most challenging objectives. We are well positioned to continue to support government in achieving its mandated commitments and priorities.

OUR MISSION

Infrastructure Ontario's mission has three tightly interconnected elements:

- **Develop commercial solutions**
- **Manage assets**
- **Execute transactions**

Through our understanding of, and experience with, a wide range of transaction models, we seek to identify creative ways to align the interests of the public and private sector, maximizing innovation and, at the same time, bringing commercial discipline to arrangements between the public and private sectors. This "commercial solutioning" is often the first step in the process of working with a public sector partner to meet infrastructure needs.

The second core part of the IO mission is to bring a total life cycle perspective to the management of all public assets. IO's approach to asset management is to optimize the spending profile on public assets (both upfront in construction and in maintenance over the life of the asset) and to ensure assets are being utilized effectively (getting the most of the investments that are made).

Finally, IO is perhaps best known for its excellence in transaction execution. We bring a seamless "one-stop shop" perspective to turn government decisions into action through a range of contracting models. The IO approach is rooted in a core set of best practices that apply regardless of the specific transaction: robust planning and due diligence; fair, open, and transparent commercial processes with rigorous and well-documented evaluation criteria and execution; and an alignment of incentives so that contractual counterparties are motivated to deliver on government's objectives.

OUR VALUES

IO's values underpin everything that the agency does and are the foundation for our success:

- **Attract and retain talented people**
- **Build great relationships**
- **Operate effectively**
- **Create a culture of innovation**

Our aspiration is to live these values consistently across the organization and in all of our interactions. We are committed to attracting and retaining talented people by building an inclusive, flexible work environment where employees feel empowered to make a real difference on behalf of the Province. We work hard to build constructive working relationships with our partners in both the public and private sectors, based on trust and honesty. We are constantly looking for ways to improve our core processes to be more effective – in particular, to ensure that we remain well-governed, protective of taxpayer value, and highly transparent in all that we do. And we strive to create an environment where employees are willing to challenge the status quo and question whether there are better ways to do things – a culture committed to continuous improvement and willing to take bigger risks when it makes sense.

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MESSAGE FROM: THE CHAIR OF THE BOARD OF DIRECTORS

I am pleased to present the Annual Report of Infrastructure Ontario for the 2019-20 fiscal year. The report demonstrates IO's continued progress in modernizing the public assets of the province. Everything we do is founded in the idea that if we work effectively with our partners in both the public and private sectors, we can create value for taxpayers in ways that others cannot and thus ensure superior outcomes.

This past year, IO issued the largest P3 project pipeline in its history with more than $60 billion in planned projects, notably including subway expansion/extension and revitalization of the GO transit network. In the past 15 years, the total volume of P3 projects assigned to IO amounts to more than $100 billion worth of investment. At the same time, IO has expanded its role in large real estate transactions on behalf of the Province – building on the success of the recent OPG headquarters divestiture, Lakeview Generating Station redevelopment plan, and Seaton Lands assembly and development – through the new Transit-Oriented Communities development program and a series of additional landmark transactions around the GTA, like the landmark redevelopment of the former Ontario Place site. Supporting a government priority to dispose of potentially costly, unused assets, IO sold 32 surplus properties, including 22 buildings, generating $38 million in net revenue for the Province and eliminating significant taxpayer liability. IO's contributions to government priorities continues to evolve through its experience in strategically managing publicly-owned assets and in its expanding role in capital procurements. We are identifying new partners and new types of partnerships that draw upon the best talents and capabilities of the public and private sector.

Sound governance remains one of the agency's strengths and is fundamental to its success. As Chair of IO's Board, I am privileged to work with an exceptional group of individuals in providing direction to the agency. My fellow board members bring with them a strong commitment to public service and I wish to acknowledge their invaluable contributions during the past year. Joining the board as a director was John McDonald, whose years of experience in global investment management will prove an asset to the board. I wish also to express my gratitude to Johanne Brossard, Deborah Barrett, and Bruce Bodden, whose terms on the board concluded during the year.

IO could not have achieved the past year's performance without the commitment and vision demonstrated by IO's executive and the dedication and skills exhibited by the entire IO team. The capabilities and professionalism of IO's employees underlie all of the agency's accomplishments.

We are all proud of the role that IO has played during the COVID-19 crisis, including our management of the Province's occupancy and use portfolio, and assistance in the delivery of additional health care facility capacity.

The Board of Directors looks forward to building upon our expanded role and our continued success during the coming year.

Christopher Voutsinas
Chair, Board of Directors

MESSAGE FROM: THE PRESIDENT AND CEO

Infrastructure Ontario is an organization full of people who take great pride in their work. People join IO from across the public and private sectors to find new and innovative ways to create value for taxpayers. By acting as the bridge between public sector challenges and private sector execution, we are able to achieve better outcomes: lower costs, faster delivery of new services, and higher quality/higher performing assets.

IO is also an organization full of people who embrace the mantra "always proud, never satisfied." We are constantly looking for ways to learn from our experience, to improve, and ultimately to deliver more value to the Province through the solutions we pursue.

It has now been almost a decade since IO was established in its current form, as an agency with a true life cycle perspective on the infrastructure assets of the province, from project development through construction and into operations and financing. The 2019-20 fiscal year represented a time of refining and combining the varied expertise within IO to have an even greater impact on government's ability to modernize and create value from its public assets. This included making significant progress on a number of issues within IO's mandate of critical importance to the government; taking on a number of new projects and lines of service aligned with the organization's vision, mission, and values; and investing in the capabilities of the organization to ensure IO remains capable of delivering on behalf of taxpayers.

In terms of delivering on its core mandate, IO moved forward on a number of strategic priorities of the Province, including the procurement and delivery of the Province's priority transit projects, the ongoing disposition of surplus real estate assets, and the continued growth and success of IO's loan program to support infrastructure investment. Specific highlights of the year include:

Executing transactions
During the past year, IO continued its delivery of major public-private partnership (P3) projects, seeing three projects achieve substantial completion, five projects reach financial close, and five projects enter procurement. Since its establishment, IO has brought to market over 130 such major projects.

Managing assets
IO continued to modernize and enhance the provincial real estate portfolio while reducing the size of its holdings. Foremost among such initiatives was the awarding of a contract for the Macdonald Block Reconstruction Project to update the hub of government operations at Queen's Park in Toronto. Additionally, $687 million was spent on operation and maintenance of the portfolio and $271 million on capital repairs and leasehold improvements.

Developing commercial solutions
IO provided strategic advice to a range of ministries and government agencies through the year, outlining how the creation of strategic private-sector partnerships could help deliver public services more efficiently. Also, the IO lending program continued to provide affordable, long-term financing to public sector clients to assist them in renewing their infrastructure and revitalizing their communities, approving 89 new loans worth approximately $422 million. This brings the total value of loans approved since the program's establishment to over $10.8 billion.

During the course of the year, the agency also assumed new responsibilities. This included the evaluating of unsolicited infrastructure proposals from the private sector for new infrastructure investments, under a new government framework; an expansion of the asset management services IO provides during the operating phase of new infrastructure assets, particularly in health care; and growth in our real estate work for asset owners outside of the general real estate portfolio (GREP). And at the close of the fiscal year, the agency was further called upon to co-ordinate additional services for the government real estate portfolio at the outset of the COVID-19 pandemic.

While our focus has been on delivering these results, we have also made important investments in the health of the organization to ensure IO continues to play its critical role for the province. We have restructured our agency, based upon staff input, to better address the volume of infrastructure projects ahead of us, the scale of the transactions we undertake, and the complexity of the commercial solutions that we must execute. This will ensure that we are well positioned to execute our real estate development and commercial initiatives going forward and maintain strong client relationships to support the government's agenda. We also have continued to make smart investments in technology, tools, and analytics to further support our work.

While we could not have predicted the outbreak of COVID-19 at the time, the strategic thinking we did through the year prepared us well to help the Province respond to the unprecedented challenges of the oncoming pandemic in many ways. We play a unique role, serving as a bridge between the public and private sector as we work to modernize and maximize the value of Ontario's public infrastructure and realty.

We look forward to building on this year's accomplishments as we continue to apply our expertise to benefit the government and people of this province, whatever the challenges before us.

Ehren Cory
President and Chief Executive Officer

WHO WE ARE

Infrastructure Ontario (IO) is a Province of Ontario Crown Agency and classified as a Board-Governed Agency. Its authority is provided by the Ontario Infrastructure and Lands Corporation Act, 2011 (OILC Act) and provides a wide range of services supporting the Government of Ontario's initiatives to modernize and maximize the value of public assets. IO upholds the government's commitment to renew public services and we do so in cooperation with the private sector.

OUR PURPOSE

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

The legislative authority of IO, and the agency's mandate as defined in the OILC Act is to:

- provide advice and services related to government property, including project management, contract management, and development;
- provide financial management for government property controlled by the Ministry of Government and Consumer Services (MGCS) or by a Crown agency for which MGCS is responsible;
- provide advice and services related to real property to prescribed public sector organizations;
- provide advice and services on financial, strategic, or other matters involving the government;
- implement or assist in the implementation of transactions involving the government;
- provide advice and services, including project management and contract management, related to infrastructure projects in Ontario that are not government property;
- provide certain advice and services to non-Ontario entities when directed to do so, in writing, by the Minister of Infrastructure;
- provide financing for infrastructure purposes to municipalities and to other eligible public organizations.

SOUND GOVERNANCE

CORPORATE GOVERNANCE

IO applies a high standard of corporate governance to ensure accountability and operational efficiency. IO is governed by a Board of Directors and Chief Executive Officer appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Infrastructure. The agency is accountable to the Ontario Legislature through the Minister of Infrastructure and reports to the minister through the Chair of the Board. A Memorandum of Understanding (MOU) between IO and the minister clarifies and delineates IO's roles and responsibilities, as well as the accountability framework between the ministry and the agency. The 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.

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

Infrastructure and Commercial Projects Committee
Recommends to the Board the approval of proposed Infrastructure Projects valued at >$50M and Commercial Projects, including transaction advisory services offered by IO

Credit and 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, including review of high density, mixed-use development transactions connected to transit stations

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

Real Estate Management 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 P3 operations and early works

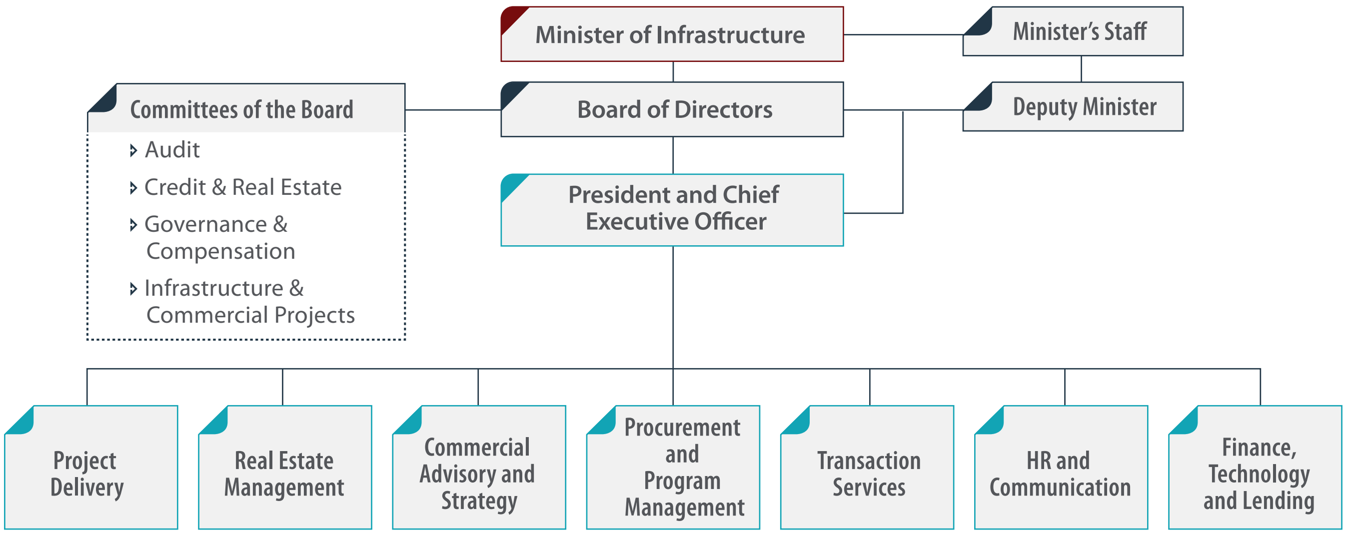
Pension Management Committee
Manages corporation pension plans, reporting to the Governance and Compensation Committee

Project Delivery Steering Committee
Oversees all delivery and operations related to P3 and large traditional projects

Credit Review Committee
Develops/oversees credit risk and treasury policy; monitors all lending functions of the organization

IT Project Prioritization Committee
The committee oversees and prioritizes IT projects across the enterprise

OUR CORPORATE STRUCTURE



* Organizational chart reflective of changes as of April 17, 2020

BOARD OF DIRECTORS

As of March 31, 2020, IO's Board of Directors consists of 10 experienced and well-informed external members, plus the CEO. 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.

The remuneration of each director, who is not the Chair, CEO or a public servant is the sum of $5,000 per year and $500 per day for each day they are engaged in business of IO. The remuneration of the Chair is the sum of $10,000 per year and $500 per day for each day of service.

Christopher Voutsinas, Chair
(Term: January 31, 2019 – January 31, 2022)

Christopher Voutsinas has over 25 years of investment management and private equity experience and has worked in major markets around the world. He has led professional teams based in North America, Europe, and Asia from offices in London, New York, and Toronto. Mr. Voutsinas is President of Capital Value & Income Corp, a proprietary co-investment and advisory firm that he founded in 2011.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $36,917.

Patrick Sheils, Vice Chair
(Term: January 31, 2019 – January 31, 2022)

Patrick Sheils is a Director of the Waterfront Toronto Board and former President and COO of Laurentian Bank Securities. His extensive financial services career has spanned 30 years in Capital Markets, both in Montreal and Toronto. For the past twenty years he has called Toronto home. With a background in debt markets, foreign exchange, and derivatives, Mr. Sheils was a long-standing member of the Investment Industry Association of Canada's Debt Markets Committee. He is bilingual and holds an MSc in International Economics and Banking from the Cardiff Business School in the UK and a BA in Economics from Bishop's University.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $12,583.

Lynn A. Kennedy
(Term: January 31, 2019 – January 31, 2022)

Lynn A. Kennedy is a senior real estate executive who has been involved in all facets of real estate investment across major product types for a number of public companies and in the private sector. Ms. Kennedy has served as a board member and executive committee member of Pension Fund Realty Limited, a private corporation held by a number of pension plans. Ms. Kennedy also served on the board of Build Toronto (now CreateTO), a corporation whose mandate is to maximize the value of underutilized real estate assets.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $15,583.

OUR CORPORATE STRUCTURE

Gadi Mayman
(Term: January 24, 2020 – January 24, 2022)

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.

No remuneration was paid from April 1, 2019, to March 31, 2020, to Gadi Mayman in his capacity as a board member.

John McDonald
(Term: June 26, 2019 – June 26, 2022)

John McDonald, a Chartered Professional Accountant (CPA, CA), is a corporate director who served as an officer and director of two Canadian investment dealers and subsequently as the CEO of a global investment management firm he founded in 1990. He has over 30 years of experience in the domestic and international capital markets and seven years of experience with the International Monetary Fund in Washington. His career includes extensive internal, external, and comprehensive audit experience domestically and internationally in both the public and private sectors. He currently also serves as a board member of the audit, finance, HR, and governance committees of Educators Financial Group - a wealth management organization wholly owned by the Ontario Secondary School Teachers' Federation.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $10,000.

Jane Pepino
(Term: April 11, 2018 – April 11, 2021)

Jane Pepino is a senior partner of Aird & Berlis LLP and founder of the firm's Municipal and Land Use Planning group. She is a member of the Chair's Advisory Council of the Urban Land Institute, the Architectural Conservancy of Ontario, and an honorary member of Lambda Alpha International, a global land economics society.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $14,500.

Clark Savolaine
(Term: March 28, 2019 – March 28, 2022)

Clark Savolaine is a senior member of KPMG LLP's Global Infrastructure Advisory practice where he specializes in strategic planning for large capital investments and transformational policy initiatives. Clark has 15 years' experience in fiscal, economic, and infrastructure policy development and regulatory affairs. He is currently a member of the Toronto Association for Business and Economics and the Toronto Region Board of Trade Infrastructure Committee.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $12,750.

David Shiner
(Term: November 21, 2018 – November 21, 2021)

David Shiner has owned and managed private corporations and served as a Toronto City Councillor for 27 years. His served as chair of city committees responsible for planning and development, finance, public works, and government management, and as the Chair of Build Toronto and Vice-Chair of CreateTO, the City of Toronto's real estate and development corporations. He has been appointed to numerous public and not-for-profit boards including Enwave District Energy, Toronto Hydro, Mount Sinai Hospital, Toronto International Film Festival, Toronto Transit Commission, Eva's shelters for homeless youth, and the Canadian Film Centre.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $16,000.

Annesley Wallace
(Term: December 5, 2018 – December 5, 2021)

Annesley has a highly successful track record as a creative and passionate leader across various industries and roles in engineering, finance and pensions. Currently, Annesley is Chief Pension Officer at OMERS, leading a team that delivers exceptional experiences to 500,000 pension plan members across Ontario. Annesley is also a director on the board of Bruce Power.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $17,000.

Jeff Wesley
(Term: March 21, 2019 – March 21, 2022)

Jeff Wesley is a lawyer with the Anderson Law Group. Before joining the firm, Jeff worked at Union Gas for 34 years (he retired in 2018) where he developed and implemented the groundbreaking Indigenous Relations Program in 1999. In 2018, Jeff also retired following 24 years as an elected official, having served the community of Wallaceburg as Mayor and as a counselor in the amalgamated Municipality of Chatham-Kent.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $15,750.

THE FOLLOWING BOARD MEMBERS TENURE EXPIRED DURING THE YEAR.

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

Deborah Barrett, a Chartered Professional Accountant, is a corporate director with more than 30 years' experience as a senior financial officer. She currently also serves on the board of Canada Life and the audit committee of The Globe and Mail. From 2011 until her retirement in 2017, she was the Chief Financial Officer of The Woodbridge Company Limited, a private investment company.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $12,000.

Johanne Brossard
(Term: December 20, 2016 – 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.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $3,250.

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

Bruce Bodden retired from MMM Group Limited 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.

Annual remuneration paid from April 1, 2019, to March 31, 2020, is $14,000.

PRESIDENT AND CEO

Ehren Cory
(Term: February 2, 2017 to October 31, 2020)

Ehren Cory is President and CEO of IO. He was appointed CEO in February 2017. In this role, he works closely with his executive team and with partners in both the public and private sectors to develop commercial solutions, execute transactions, and manage assets in a continued effort to modernize Ontario's public assets.

Ehren was previously the President of IO's Major Projects division. He and his team led the tendering and construction oversight for all major infrastructure projects undertaken by the Province, ensuring on-time and on-budget delivery.

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

Prior to joining IO, Ehren worked for 15 years as a management consultant and as a partner at McKinsey & Company. Ehren served as a leader in the Public Sector and Capital Projects groups, working with energy and mining clients in both the public and private sectors on issues including operating strategy, project execution, risk management, and operations transformation.

Ehren is also a member of Infrastructure Ontario's Board of Directors. No remuneration was paid to Ehren in his capacity as a board member.

OUR CORPORATE STRUCTURE

RESULTS FOR THE YEAR

IO had a successful year and excelled in providing advice and executing projects to support the government's mandates. Some of the highlights for the year include:

- Launching the largest P3 pipeline in the Province's history, demonstrating the government's faith in IO's ability to manage large and complex projects across the province;
- Driving strategy and execution for signature platform commitments for subway projects, long-term care facilities, and Ontario Place;
- Expanding our impact and value proposition to new asset classes and initiating in collaboration with the Independent Electricity System Operator (IESO) to define a competitive procurement program for transmission infrastructure;
- Mobilizing internal resources and activating partnerships to support rapid delivery of hospital surge capacity during the COVID-19 pandemic;
- Generating $38.7 million in net revenue and $756,000 in annual liability reduction by selling 94,813 square feet of surplus properties and 4,141 acres of land.

Notably, the onset of the COVID-19 pandemic had IO test its resiliency and adaptability. In one example, IO successfully demonstrated operational flexibility by quickly transitioning to remote working configurations and maintaining operational efficiency and technological continuity, ensuring the health and safety of its staff, during the earliest days of the pandemic. This was made possible through investments in network and collaboration tools and consolidation of our Toronto offices during the past year.

IO also provided exceptional customer service to the Ontario Public Service to help it manage through the crisis. Some examples include ensuring enhanced cleaning services to ministries where required, installing plexiglass shields at public-facing Service Ontario and Land Registry Offices across the province, creating an intake process and offering advisory services for ministries and agencies who needed access to surplus real estate. IO also delivered project management services to a number of hospitals that required additional capacity through the construction of field hospitals.

YEAR AT A GLANCE

The following review of corporate performance aligns with the 2019-20 corporate objectives and IO's long-term strategic plan identified in the 2019-22 Business Plan.

2019-20 CORPORATE PERFORMANCE

IO's objectives are fundamentally rooted in its vision, mission, and values. The following is a summary of IO's corporate performance for each of the agency's seven corporate objectives, outlining both signature accomplishments and areas of improvement and opportunity.

IO's 2019-20 objectives are as follows:

1. DEVELOP COMMERCIAL SOLUTIONS

OBJECTIVE: Identify and develop commercial solutions that, in partnership with the private sector, optimize the value of public assets, projects, and programs. Leverage in-house expertise to implement market accepted solutions in support of government priorities.

IO wants to ensure its advice is turning into meaningful and marketable solutions for government. As such, IO measures its success relative to its ability to translate proposed solutions into marketable transactions that meet the government's objectives. Such solutions are designed to support market participation and drive value to taxpayers.

Key accomplishments include:

- Led the commercial structuring for the Ontario Line subway project.
- Executed a global procurement process for the redevelopment of Ontario Place, marketing an opportunity to redevelop the site into an iconic year-round tourism destination. The process has enabled IO, in partnership with the Ministry of Heritage, Sport, Tourism and Culture Industries, to develop an overall development plan that will realize the Province's vision for the site.
- Engaged by PRESTO, an operating division of Metrolinx, to provide advice on developing PRESTO's procurement strategy for 2022, in alignment with its long-term vision.
- Supported a process in partnership with MOI and lead ministries to assess unsolicited proposals from the private sector. In addition to assessing

proposals and developing them toward a government decision, we are in the process of assessing proposals to address major policy problems that currently have no credible solutions in place. IO is also assessing the opportunity to expand advisory work outside of Ontario, based upon pilots and research conducted in partnership with the Harvard Kennedy School of Government.

Areas of improvement and opportunities:

- IO will focus on an approach whereby it provides strategic advice to execution-oriented mandates and aligns stakeholders across the government. We will also continue to assess the pipeline of unsolicited proposals to address priority policy areas of concern for the Province.

2. EXECUTE TRANSACTIONS

OBJECTIVE: Meet or exceed industry best practices and performance in the delivery of government priorities, projects, and transactions across a spectrum of delivery models.

IO's performance is measured by the agency's ability to execute transactions that achieve the best value for government assets with foremost consideration for safety, efficiency, and effectiveness.

IO executes projects across a broad spectrum of delivery model options in order to effectively deliver capital projects of all sizes, regardless of asset class. We apply our experience and skills in delivering infrastructure projects to existing and new asset classes.

Key accomplishments include:

- Continued to advance the government's transit agenda. IO worked closely with the government and Metrolinx to prepare for the upload of the subway assets, formulating the approach to develop, procure, and deliver new subway lines. IO's involvement at this early stage of planning and pre-procurement allowed us to provide valuable advice to the government on matters of project scope, staging, cost estimation, and procurement strategy. The transfer of new subway delivery responsibility to IO and Metrolinx allowed both parties to establish governance and protocols for partnership and an effective division of responsibilities that incorporated lessons learned from our work together on other transit projects. We have recently increased our capacity to deliver these ambitious projects by bringing on internal expertise to help drive the programs forward.
- Released the largest P3 pipeline in Ontario's history during the fall of 2019 and issued a procurement milestone update earlier in the year.
- Continued to record on-time and on-budget project completion results consistent with previous years. As of March 31, 2020, of the 66 projects that had achieved Substantial Completion since the inception of IO's P3 program, 95% were completed on-budget and 67% were completed within one month of the scheduled Substantial Completion date established at Financial Close.
- Delivered 4,672 capital and client-funded projects representing $271.2 million, including the amalgamation of the Superior Court of Justice at 361 University Avenue and 330 University Avenue in Toronto.
- Negotiated 204 lease transactions for ministry, agency and broader public sector clients with a transaction value of $335.4 million and a negotiated benefit to government of $9.9 million. IO also negotiated 207 lease transactions in government-owned space with a gross transaction value of $21.1 million.
- Led the introduction of the Alliance Contracting Model for the Union Station Redevelopment Project. This model represents an alternative form of contracting within IO's P3 program. The business case for this model was supported by a newly developed tool for assessing delivery models, one that we expect will be more widely used to improve government capital procurement decisions in the future. IO led the introduction of this model to the market and developed procurement and contract documents for use.
- Created an innovative tool as referenced above to help us work with our partners in selecting the optimal transaction structure for a project or program.

Areas of improvement and opportunities:

- Market participation in large procurements continues to be a challenge in certain P3 transactions. IO is working to address this through regular, ongoing dialogue with the industry.

OUR CORPORATE STRUCTURE

- While one of the three P3 projects that reached substantial completion in 2019-20 was early, the two remaining projects were late by a few months. The trend towards late projects requires ongoing strategies and mitigation despite strong contractual and model protections. Our performance delivering projects on schedule nonetheless remains well above industry standards for large, complex projects.

3. MANAGE ASSETS

> OBJECTIVE: Optimize value of the portfolio through strategic investments, divestments, developments and partnerships. Effectively manage and mitigate asset and program risks.

This measure reflects IO's performance as managers in directing strategic investments and managing risk within the real estate portfolio, developing mitigation strategies where the assigned resources are insufficient to deliver targeted outcomes.

Through several signature achievements this year, IO increased its role in the management of the government's real estate assets and successfully demonstrated how it can optimize value across the broader portfolio.

Despite chronic underfunding, IO kept the operating costs for GREP-owned facilities within the target at 2.2%.

Key accomplishments include:

- Developed an overall strategy to optimize the broader asset portfolio by balancing objectives of revenue/liability reduction and leveraging assets to create affordable housing and long-term-care supply.
- Developed an Office Realty Model in partnership with MGCS and other ministries to centralize decision making and prioritization for the office portfolio. This will support the office optimization plans developed by IO to maximize government-owned buildings and minimize third-party involvement.
- Created a comprehensive provincial real estate inventory of all owned and leased real estate under the control of ministries, agencies and the consolidated broader public sector. All properties have been mapped in GeoPortal and the inventory has over 30,000 land records and 17,000 building records. The inventory has been used extensively during the COVID-19 pandemic to match vacant buildings/land with entities in need of real estate. The inventory is also used to inform decisions for portfolio optimization initiatives.
- Made significant progress on the Macdonald Block Reconstruction Project. The contract for the reconstruction was awarded to Fengate PCL Progress Partners (FP3) in early August 2019. Prior to the start of reconstruction, IO relocated more than 4,500 Ontario Public Service employees. By using space more efficiently, some Macdonald Block staff were moved into existing government offices while the majority of employees were moved into three temporary office locations.
- Secured approval for the first eight Transit Oriented Communities transactions for three of the four priority subway lines.
- Maintained the GREP Facility Condition Index (FCI) within acceptable range at 21.4%.
- Approved 89 loans during the year, all assessed as low risk.
- Continued to grow the scale of the transit infrastructure investments.

Areas of improvement and opportunities:

- IO looks to secure a formal role as the asset management and development arm for the Province and continue to activate partnerships and develop solutions to support the creation of a pipeline of development work.
- The agency intends to proactively pursue development opportunities within the portfolio in new ways.

4. ATTRACT AND RETAIN TALENTED PEOPLE

> OBJECTIVE: Use IO's Employee Value Proposition pillars (Real Impact, Empowered to Succeed, One Team, Grow Our People) to position talent to be ready to meet current and emerging mandates.

IO recognizes that having the right people in the right roles is critical to its success. The measures ensure IO is meeting the agency's commitments to grow its people, engage them in meaningful ways and maintain a safe environment.

Progress was made on the leadership focus around development, coaching, and mentorship to increase employee engagement and retain key talent. IO will prioritize resource planning and skills assessment across the organization to identify talent needs.

Key accomplishments include:

- Achieved an 88% completion rate for the annual employee survey, an increase over last year with an increased positive rating on all key measures of employee engagement.
- Enhanced the Leadership Development Program to address four streams of leadership: emerging leaders, first-time managers, top talent leaders, and all leaders. The program aims to grow and sustain the quality of leadership at IO in order to attract and retain top talent.
- Expanded the talent review process to identify future potential leaders and build stronger pools for succession planning.
- Continued to attract and retain talented individuals via a truly distinctive Employee Value Proposition program centered on impactful work, flexibility, teamwork, inclusion, and career development.
- Utilized our flexible work program during the COVID-19 crisis to maintain the IO culture that is rooted in the Employee Value Proposition.

Areas of improvement and opportunities:

- IO will continue to focus on leadership development and accountability, aligning leadership competency to development programs and ensuring alignment with IO's values.

5. OPERATE EFFECTIVELY

OBJECTIVE: Undertake internal initiatives to ensure that IO's governance model, business processes, technology and resources are aligned and positioned to support current and emerging mandates.

This objective measures operating performance, focusing on metrics that assess IO's diligence in budgeting practices, resource forecasting, and governance in order to ensure the agency is evolving and improving the way business is conducted.

IO delivered on some significant initiatives during the year and will focus on alignment of the organizational structure to reflect the nature and volume of work ahead. A key focus in the coming year will be applying our service modernization practice to our own operations, maturing our operating model to ensure that we have the right capabilities and tools in place across the enterprise.

Key accomplishments include:

- Implemented a formal IT governance model with an established framework to assess and prioritize activities based on strategic alignments and financial impacts, and ensure resources are prioritized in a disciplined and transparent manner.
- Elevated IO's Enterprise Risk Management (ERM) practices through heightened board-awareness of enterprise risks, updating IO's Corporate Risk Register, and initiating a review of ERM maturity.
- Achieved a surplus budget with diligent reviews of the operating results and staffing at fiscal year-end. (IO has four lines of business. The financial performance of each line can be found in the Financial Report section of this report)
- Implemented a financial planning and rolling forecast process to enable timely and sound decision-making for the executive and the board. This initiative will help compile resources and service delivery requirements across the organization and assess the financial impact in order to deliver on IO's mandate.
- Responded rapidly to the COVID-19 pandemic with all its employees working remotely. The technology infrastructure and collaboration tools which were in place at IO have enabled us to operate seamlessly despite an increasing workload and new priorities.

Areas of improvement and opportunities:

- As IO's technology needs continue to evolve and technology plays an increasingly important role in our ability to deliver on our strategic initiatives, we will continue to invest in the capability and capacity necessary to support the organization's work.

6. BUILD GREAT RELATIONSHIPS

OBJECTIVE: Take a whole of IO approach to building strong partnerships with government, industry, and other key stakeholders around shared goals.

Measures and initiatives have been designed to ensure IO's key partners and stakeholders view the agency as proactive and providing value in the services delivered. IO seeks to be recognized as a thought leader and innovative partner when faced with an issue or challenge.

OUR CORPORATE STRUCTURE

IO continues to effectively evolve its approach to stakeholder and partner development and engagement. A strategy to maximize and replicate recent successes with client ministries has been put into place, including rapid delivery programs and enterprise real estate with the support of the government.

Key accomplishments include:

- Continued to evolve some of our long-standing relationships with ministries, where the focus had traditionally been on servicing real estate, to a more upstream solutions-based service that then informs real estate needs.
- Evolved and expanded our relationships with agencies to provide real estate service to the broader public sector.

Areas of improvement and opportunities:

- We recognize that, in order to increase our impact on behalf of the government, we must continue to demonstrate our ability to deliver solutions that achieve results. To show the breadth of solutions we can deliver, we need to improve cross-functionally within IO.

7. CREATE A CULTURE OF INNOVATION

OBJECTIVE: Build a culture that empowers people to develop ideas that position IO to lead in a changing environment.

This objective measures IO's success in creating an empowering culture through employee's experiences (e.g., do employees feel empowered to bring forward new ideas, take appropriate risks, and learn from failure).

IO is very fortunate to have the right skills and value proposition to support government in a wide variety of ways. We continue to discover other opportunities to promote innovative practices across the organization.

Key accomplishments include:

- Piloted an enhanced Request for Proposals process on a P3 project. The pilot included: enhanced design presentation meetings and feedback process with Proponent teams; simplified RFP submission requirements; and a reorientation of the calibration of pricing in the evaluation of submissions. Each change is significant in its own right. Applying these collectively to the project RFP was an experiment that demonstrated a willingness to fail, but was met with positive market feedback and responses.
- Achieved a rating in the employee survey results of 82% of staff who said they felt compelled to make a change when they saw opportunity for improvement.
- Trained our executive leaders on how to create a culture of psychological safety that will inspire and enable innovative thinking and define what innovation looks like at IO.
- Created and implemented IO's Smart Building Initiative by digitally connecting systems within a building to a centralized operations centre. This initiative enables the building to be optimized for tenants in real time, leads to enhance tenant experience, increases productivity, reduces costs and mitigates both physical and cybersecurity risks. To date, 26 buildings have been added to the network representing a total of 5.6 million square feet of facility space. An additional 41 buildings are to be added to the network in the future.

Areas of improvement and opportunities:

- Creation of an insight group to apply our analytics capability to prioritize future initiatives. This capability will be leveraged to enhance future advice to government on commercial matters.

RISK MANAGEMENT

Risk management is ingrained in all projects and processes across the organization. IO utilizes a comprehensive Enterprise Risk Management (ERM) program that helps the organization identify, evaluate, mitigate, monitor, and report on risks. During the past fiscal year, IO refreshed its enterprise risk register to consider legacy, current, and emerging risks. Risks are also considered through multiple perspectives (strategic, operational, financial, and reputational). Key risks and mitigation activities are regularly reviewed by senior management and reported quarterly to the respective Board of Directors' committees and MOI.

In addition to the improvement areas and opportunities noted above, over the course of the year there were a few key risk events that materialized.

OUR CORPORATE STRUCTURE

STRATEGIC

Underfunding of the Capital Repair Program (CRP) remains an ongoing risk. Although IO managed the portfolio with great care and diligence, the increasing number of buildings with a Facility Condition Index (FCI) higher than 20%, as well as a current backlog of deferred maintenance, poses a significant risk that may result in asset degradation, value deterioration, health and safety incidents, and critical building system failures. Although IO does not own the assets in question or control their funding, there may be a reputational impact to IO. As such, IO has actively taken steps to mitigate these risks by priority-ranking project requirements to maximize the impact of available funding; worked with project service providers to ensure effective planning and delivery of the CRP; and exercised rigid management of emergency repairs to ensure prevention of further damage or temporary restoration pending a permanent solution. These actions have helped reduce the number of emergency projects by 21% from 109 in 2018-19 to 86 this year.

OPERATIONAL

Recent public health and safety events have increased the risk that certain project consortia are impacted by cost increases and potential schedule delays due in part to changes to work rules, laws, and protocols for accessing project sites, with delayed projects having a reputational impact on IO and the P3 program overall. To mitigate, IO's delivery teams have been continually evaluating the project portfolio to assess projects that could be delayed, and understanding and estimating any associated financial risks. IO's initial analysis suggests that financial risks are not material.

FINANCIAL

Recent economic conditions may potentially impact IO lending clients. Through ongoing monitoring, loan review, and communication, IO remains comfortable with the status and performance of its $6.1 billion lending portfolio and its ability to continue supporting growth across the province while carefully managing lending risks. There have been no payment defaults during the year.

REPUTATIONAL

IO has been delivering an increasing number of civil projects (e.g., transit projects) that require more complex risk-sharing due to the significant number of unknowns involved. To achieve optimal value for money, material risks are retained by IO and its delivery partners; if a retained risk becomes an event, P3 Project Agreements allow for project consortia to be compensated. As result, IO has observed an increase in activity for delay and compensation claim submissions in certain P3 projects. To manage the increased activity, IO and its delivery partners have established a dedicated group to facilitate the effective contract management of P3 projects, with a mandate to prevent, manage, mitigate, and resolve claims.

COMMUNITY INVOLVEMENT - IO GIVES BACK

IO and its employees care about the vitality of the communities in which they live and work. IO employees contribute to communities across the province through volunteering, fundraising, and donating. In 2019-20, IO employees hosted or supported over a dozen events, raising over $100,000 for United Way and other organizations through cash and payroll donations, and a number of special events including an employee appreciate chocolate-gram exchange, pumpkin carving contest, golf tournament, bake sales and raffles, the Scotiabank Rat Race, and the GovFest Battle of the Bands. IO employees also supported the community by participating in activities for the Salvation Army (Toy Mountain), MLSE Foundation (Team Up Challenge), JDRF (Ride to Defeat Diabetes), World Wildlife Fund (CN Tower Stair Climb), and the Native Women's Resource Centre (Donation Drive), collecting and donating cash and material items for those in need.

2019-20 AWARDS

CASEY HOUSE

Award of Excellence
National Urban Design Awards

CASEY HOUSE

Award of Merit: Private Buildings in Context – Low Scale
Toronto Urban Design Awards

NEW TORONTO COURTHOUSE

Silver Award – Project Development
National Awards for Innovation and Excellence in Public-Private Partnerships
Canadian Council for Public-Private Partnerships

ONTARIO PLACE – TRILLIUM PARK & WILLIAM G. DAVIS TRAIL

Award of Excellence: Small Open Spaces
Toronto Urban Design Awards

RT. HON. HERB GRAY PARKWAY

Gold - Best Operational Project
P3 Awards 2019, P3 Bulletin

WEST PARK HEALTHCARE CENTRE

Silver - Best Financial Structure - Social Infrastructure
P3 Awards 2019, P3 Bulletin

WEST PARK HEALTHCARE CENTRE

Silver - Best Social Infrastructure Project (excluding Education)
P3 Awards 2019, P3 Bulletin

Ontario Infrastructure and Lands Corporation

Financial Report

FOR THE YEAR ENDED MARCH 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Infrastructure Ontario (IO) is a Crown corporation reporting to the Minister of Infrastructure (Minister) and is classified as a board-governed agency. 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.

Project Delivery manages large, complex public infrastructure projects primarily through the Public-Private Partnership (P3) model, where we partner with the private sector and leverage financing capacity and expertise to build high quality public infrastructure, delivering on schedule and on budget.

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 Government and Consumer Services (MGCS), to maximize the value of government assets through portfolio planning and rationalization. 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 infrastructure 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, information technology and risk management.

This Management's Discussion and Analysis (MD&A) is intended to provide an overview of IO's financial activities for the year ended March 31, 2020, and should be read in conjunction with the financial statements for the year ended March 31, 2020 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, in accordance with how performance is measured.

PROJECT DELIVERY

YEAR-ENDED MARCH 31, 2020 VS. BUDGET

Project Delivery reported a surplus of $1.7 million for the year, $0.2 million higher than budget.

REVENUE

Project Delivery provides professional services for P3 projects under either fixed price or cost recovery based contracts. For fixed price contracts prior to reaching financial close, revenue is recognized when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. After financial close, revenue is recognized using the percentage of completion method. Percentage of completion is calculated based on a ratio of costs incurred to total estimated costs. At final completion, any remaining margin on the fixed price contract is recognized. For cost recovery based contracts, revenue for project delivery, and project transaction and recoverable costs, is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured.

Revenue for the year, excluding project transaction and recoverable revenue, was $44.0 million, $1.7 million below budget.

- The unfavourable variance was primarily due to lower fee revenue recognized on projects including Go Expansion On-Corridor Package 3 and Hamilton LRT, with the latter being cancelled during the year. The lower revenue is due to lower costs incurred during the year, which resulted in an offsetting favourable expense variance.
- Project transaction and recoverable revenue was $49.7 million for the year. Project transaction costs include advisors that assist throughout the procurement process. Recoverable costs are the ancillary costs on a project and vary depending on the nature and stage of the project. Historically, IO did not budget for these costs due to the nature and variability of annual spend, although it is worthwhile to note that going forward, these costs will be included in IO's budget and quarterly forecasts.

EXPENSES

- Salary and benefit expenses were $30.8 million for the year, $1.6 million below budget due to a lower average headcount during the year. The number of employees supporting Project Delivery at end of the year was 231, compared to the budget of 226, due to growth in the Subways portfolio resulting in additional hirings towards end of the year.
- General and administration expenses were $11.5 million for the year, $0.3 million below budget. The favourable variance is primarily due to lower spending on professional and consulting services.
- Project transaction and recoverable costs were $49.7 million for the year, consistent with revenue recognized as explained above.

YEAR-ENDED MARCH 31, 2020 VS. MARCH 31, 2019

Project Delivery reported a surplus of $1.7 million for the year, a decrease of $0.4 million compared to the prior year.

REVENUE

- Revenue for the year, excluding project transaction and recoverable revenue, was $44.0 million, $5.4 million higher than the prior year.
- The increase in revenue was primarily due to a larger number of projects in the current year, such as the addition of the Subways portfolio. The surplus is lower than the prior year primarily due to a fee increase in the prior year for the Seneca project.
- Project transaction and recoverable revenue was $49.7 million for the year, $13.2 million higher than the prior year.

EXPENSES

- Salary and benefit expenses were $30.8 million for the year, $2.5 million higher than the prior year. The number of employees supporting Project Delivery was 231, compared to 200 in the prior year.
- General and administration expenses were $11.5 million for the year, $3.1 million higher than the prior year due to higher spending on professional and consulting services, and increased technology costs.
- Project transaction and recoverable costs were $49.7 million for the year, $13.5 million higher than the prior year. Recoverable costs vary depending on the nature and stage of the project.

REAL ESTATE

YEAR-ENDED MARCH 31, 2020 VS. BUDGET

Real Estate reported a deficit of $0.6 million for the year, $0.6 million below budget.

REVENUE

Revenue for the year, excluding project transaction and recoverable revenue, was $56.7 million, $0.9 million below budget.

- Management fees include funding from GREP for asset management, facility management oversight and realty services in addition to revenue earned on corporate realty initiatives. Corporate realty initiatives include a range of real estate services including real estate options analysis, leasehold asset management planning services, and the hydro corridor program. Management fees were $55.7 million for the year, $0.6 million below budget, primarily due to lower revenue for corporate realty initiatives.
- Other income consists of lease commission rebates from CB Richard Ellis (CBRE). As part of the outsourced CBRE contract, IO is entitled to 50% of the brokerage commission earned by CBRE after meeting all associated expenses. During the year $1.0 million in revenue was recognized, $0.2 million lower than budget.
- Project transaction and recoverable revenue was $6.4 million for the year. This revenue relates to the recovery of project related third party advisor costs.

EXPENSES

- Salary and benefit expenses were $37.1 million for the year, $0.1 million below budget. The number of employees supporting Real Estate was 275 compared to the budget of 281.
- General and administration expenses were $10.0 million for the year, consistent with the budget.
- 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 $10.2 million, $0.1 million below budget.
- Project transaction and recoverable costs were $6.4 million for the year, consistent with the offsetting revenue noted above.

YEAR-ENDED MARCH 31, 2020 VS. MARCH 31, 2019

Real Estate reported a deficit of $0.6 million for the year, $0.6 million below the prior year.

REVENUE

Revenue for the year, excluding project transaction and recoverable revenue, was $56.7 million, $3.5 million higher than the prior year.

- Management fees were $55.7 million for the year, $3.9 million higher than the prior year. This is primarily due to a one time reduction in management fees from GREP during the prior year.
- Other income was $1.0 million for the year, $0.4 million below the prior year due to lower lease commission rebates. These rebates depend on the volume and size of lease transactions.
- Project transaction and recoverable revenue was $6.4 million for the year, $1.2 million higher than the prior year. Project transaction and recoverable revenue represents third party advisor costs that are recovered through projects, and vary depending on the nature of the project.

EXPENSES

- Salary and benefit expenses were $37.1 million for the year, $2.0 million higher than the prior year. The number of employees supporting Real Estate was 275 compared to 264 in the prior year.
- General and administration expenses were $10.0 million for the year, $1.9 million higher than the prior year. The unfavourable variance is primarily due to higher spending on professional and consulting services, and increased technology costs.

- Sub-contracting fees paid to CBRE in the year were $10.2 million, $0.2 million higher than the prior year.
- Project transaction and recoverable costs were $6.4 million for the year, $1.2 million higher than the prior year. These costs are offset by revenues.

LENDING

YEAR-ENDED MARCH 31, 2020 VS. BUDGET

Lending reported a surplus of $10.4 million for the year, $7.9 million lower than budget primarily due to an $8.1 million increase in the general loan valuation allowance due to management's assessment of the economic impact of COVID-19 on the ability of some borrowers to generate revenues and/or donations. Excluding the loan valuation allowance, the surplus is $18.6 million, $0.3 million higher than budget.

The net interest margin (NIM) for the year was $22.9 million, $1.7 million below budget, primarily due to the impact of lower interest rates as compared to budget and higher interest paid on swaps.

($ millions)		Actual	Budget	Variance
Interest revenue	$	**241.0**	241.8	(0.8)
Interest expense		**(218.1)**	(217.2)	(0.9)
NIM	$	**22.9**	24.6	(1.7)

Other income for the year was $2.2 million, $1.6 million higher than budget, and includes $1.4 million related to breakage fees for two loans that were restructured in Q3, and $0.8 million of cost recoveries for the administration of grant programs.

EXPENSES

- Salary and benefit expenses were $4.6 million for the year, consistent with budget. The number of employees supporting Lending was 34 compared to the budget of 36.
- General and administration expenses were $2.0 million for the year, $0.3 million below budget.

YEAR-ENDED MARCH 31, 2020 VS. MARCH 31, 2019

Lending reported a surplus of $10.4 million for the year, a decrease of $8.5 million compared to the prior year primarily due to an $8.1 million increase in the general loan valuation allowance. NIM was $22.9 million, a decrease of $1.3 million compared to the prior year primarily due to the repayment of higher yielding loans.

($ millions)		March 31, 2020	March 31, 2019	Variance
Interest revenue	$	**241.0**	240.5	0.5
Interest expense		**(218.1)**	(216.3)	(1.8)
NIM	$	**22.9**	24.2	(1.3)

Other income for the year was $2.2 million, an increase of $0.6 million compared to the prior year primarily due to breakage fees from two loans that were restructured in the current year.

EXPENSES

- Salary and benefit expenses were $4.6 million for the year, an increase of $0.1 million compared to the prior year. The number of employees supporting Lending was 34, compared to 37 in the prior year.
- General and administration expenses were $2.0 million for the year, a decrease of $0.3 million compared to the prior year.

COMMERCIAL PROJECTS INCLUDING TRANSIT ORIENTED COMMUNITIES (TOC)

YEAR-ENDED MARCH 31, 2020 VS. BUDGET

Commercial Projects reported a surplus of $0.2 million for the year, $0.2 million higher than budget.

REVENUE

Revenue for Commercial Projects is recognized on a cost recovery basis. Revenue for the year, excluding project transaction and recoverable revenue, was $5.6 million, $0.4 million higher than budget.

- Fees include revenue from the TOC strategy and the Pysch Lands Business Cases.
- Project transaction and recoverable revenue was $5.3 million for the year. Project transaction and recoverable revenue relates primarily to third party advisor costs on the TOC - Subway Relief Line and Ontario Place Development projects.

EXPENSES

- Salary and benefit expenses were $4.4 million for the year, $0.2 million higher than budget. The number of employees supporting Commercial Projects was 36 compared to the budget of 30. The increase is due to growth in TOC to support transit and subway strategies.
- General and administration expenses were $1.0 million for the year, consistent with the budget.
- Project transaction and recoverable costs were $5.3 million for the year, consistent with revenue recognized as explained above.

YEAR-ENDED MARCH 31, 2020 VS. MARCH 31, 2019

Commercial Projects reported a surplus of $0.2 million for the year, $1.4 million higher than the prior year.

REVENUE

Revenue for the year, excluding project transaction and recoverable revenue, was $5.6 million, $3.7 million higher than the prior year.

- The higher revenue was primarily due to TOC strategy to support transit and subway strategies.
- Project transaction and recoverable revenue was $5.3 million for the year, $3.0 million higher than the prior year.

EXPENSES

- Salary and benefit expenses were $4.4 million for the year, $1.9 million higher than the prior year. The number of employees supporting Commercial Projects was 36 compared to 16 in the prior year.
- General and administration expenses were $1.0 million, $0.4 million higher than the prior year. The unfavourable variance is primarily due to higher spending on professional and consulting services and increased technology spend.
- Project transaction and recoverable costs were $5.3 million for the year, $3.0 million higher than the prior year. Project transaction costs are consistent with revenue recognized as explained above.

STATEMENT OF FINANCIAL POSITION

CASH

At March 31, 2020, cash was $535.2 million, an increase of $94.6 million from a March 31, 2019 balance of $440.6 million. The increase is primarily due to financing activities offset by investing and operating activities as highlighted in the Statement of Cash Flows.

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). Funds from the loans are invested in $233.6 million in cash and $166.4 million in investments, providing credit protection to all lenders.

RESTRICTED CASH

At March 31, 2020, restricted cash was $165.0 million, an increase of $17.8 million from a March 31, 2019 balance of $147.2 million. The increase is primarily due to $9.0 million increase in the capital expenditures fund set aside for the Toronto Community Housing Corporation (TCHC) and $8.7 million received from the Ministry of Transportation for payments to project construction consortiums.

ACCOUNTS RECEIVABLE

At March 31, 2020, accounts receivable were $53.5 million, an increase of $14.7 million from $38.8 million at March 31, 2019. The majority of accounts receivable are related to P3 projects. Accounts receivable over 90 days total $13.7 million, including $6.4 million from the Ministry of Health, $5.0 million from Ontario Place Corporation, and $1.2 million from Metrolinx. To date, $0.6 million of the $13.7 million has been collected.

LOANS RECEIVABLE AND DEBT – LOAN PROGRAM

At March 31, 2020, loans receivable were $6,052.6 million, an increase of $109.9 million from $5,942.7 million at March 31, 2019. The increase is due to $518.2 million of loans issued and the amortization of concessionary loans of $4.6 million, offset by $404.8 million of loan repayments and $8.1 million of loan valuation allowance.

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

- Borrowed $80.0 million on the short-term revolving credit facility with the Province to finance construction loans.
- Repaid $42.0 million on the Ontario Immigrant Investor Corporation loans as they came due.
- Repaid $100.0 million on the Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds to the Province.
- Borrowed $280.8 million on the long-term non-revolving credit facility with the Province to finance back to back 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. The total general loan allowance was $26.6 million as at March 31, 2020, compared to $18.5 million as at March 31, 2019, an increase of $8.1 million due to management's assessment of the economic impact of COVID-19 on the ability of some borrowers to generate revenues and/or donations.

The specific valuation allowance is a provision of probable identifiable losses on existing loans. The total specific loan valuation allowance was $4.5 million as at March 31, 2020, consistent with the balance as at March 31, 2019.

PROJECTS RECEIVABLE

At March 31, 2020, projects receivable were $45.3 million, an increase of $15.0 million compared to $30.3 million at March 31, 2019. 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 Trillium Health Partners – Broader Redevelopment and Brampton Courthouse Addition.

INVESTMENTS

At March 31, 2020, investments were $169.1 million, a decrease of $7.0 million from $176.1 million at March 31, 2019. The decrease is due to maturity of bonds and amortization of the investment bond premiums.

DERIVATIVES

IO, being a borrower and a lender, uses derivatives to minimize the Agency's interest rate risk exposure related to its loan receivables and debt obligations. 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.

Derivatives are recorded at fair value and presented on a net basis on the Statement of Financial Position resulting in net derivative liabilities of $77.4 million, and the Statement of Remeasurement Gains and Losses as an accumulated unrealized loss. The unrealized loss increased by $44.5 million from $32.9 million at March 31, 2019. This is primarily due to the decrease in interest rates during the year. Since IO has a greater notional value of asset swaps compared to liability swaps, IO's swaps are less favourable in a decreasing interest rate environment.

ACCOUNTS PAYABLE

At March 31, 2020, accounts payable was $6.8 million, a decrease of $0.1 million from $6.9 million at March 31, 2019. The current outstanding balance includes $4.0 million for HST payable to the Canada Revenue Agency and $2.8 million payable to third party vendors.

ACCRUED LIABILITIES

At March 31, 2020, accrued liabilities were $24.3 million, a decrease of $1.3 million from the March 31, 2019 balance of $25.6 million. This includes $12.5 million for operating expenses including salaries/benefits, vacation, and other expenses, and $11.8 million for project related advisory costs.

LIABILITIES HELD IN TRUST

At March 31, 2020, liabilities held in trust were $165.0 million, an increase of $17.8 million from $147.2 million at March 31, 2019. The increase is primarily due to $9.0 million increase in the reserve funds for TCHC and $8.7 million received for funds payable to project construction consortiums.

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, at which time they are recognized into revenue based on IO's revenue recognition policy. At March 31, 2020, deferred revenue was $59.2 million, an increase of $7.4 million from a March 31, 2019 balance of $51.8 million due to the timing of invoicing on certain projects relative to revenues earned to date. The majority of deferred revenue is related to P3 projects.

Ontario Infrastructure and Lands Corporation

Financial Statements

FOR THE YEAR ENDED MARCH 31, 2020

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Independent auditor's report

To the Directors of Ontario Infrastructure and Lands Corporation

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation (the Organization) as at March 31, 2020 and the results of its operations, changes in its net debt, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited
The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2020;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of remeasurement gains and losses for the year then ended;
- the statement of changes in net financial assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 25, 2020

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

Priyal Thakrar
Chief Financial Officer and
Executive Vice President, Lending

STATEMENT OF FINANCIAL POSITION

As at March 31 (in thousands of dollars)

	March 31 2020	March 31 2019
Financial assets		
Cash	$ 535,186	$ 440,647
Restricted cash (Note 2 & 18)	164,971	147,248
Accounts receivable (Note 3)	53,475	38,796
Interest receivable	44,687	45,775
Investment income receivable	1,902	2,256
Loans receivable (Note 4)	6,052,603	5,942,655
Projects receivable (Note 6)	45,342	30,328
Investments (Note 7)	169,117	176,090
	7,067,283	6,823,795
Liabilities		
Accounts payable	6,798	6,898
Accrued liabilities	24,348	25,650
Liabilities held in trust (Note 2 & 18)	164,971	147,248
Interest payable	44,038	49,774
Derivatives (Note 5)	77,390	32,915
Deferred revenue	59,234	51,768
Debt - loan program (Note 9)	6,144,101	5,924,581
Capital - loan program (Note 9)	399,681	399,681
	6,920,561	6,638,515
Net financial assets	146,722	185,280
Non-financial assets		
Tangible capital assets (Note 10)	10,819	4,949
	157,541	190,229
Accumulated surplus	234,931	223,144
Accumulated remeasurement losses (Note 5)	(77,390)	(32,915)
	$ 157,541	$ 190,229

Contingencies (Note 16)

Commitments (Note 17)

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

Approved

Board Chair

Director, Chair Audit Committee

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

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

	2020 Budget	2020	2019
Revenues			
Interest revenue (Note 11)	$ 241,752	$ **240,954**	$ 240,450
Project delivery fees (Note 13)	50,826	**49,585**	40,421
Management fees - GREP (Note 13)	51,695	**51,695**	46,298
Management fees - Corporate Realty (Note 13)	4,687	**4,038**	5,513
Project transaction and recoverable costs (Note 13)	21,025	**61,434**	44,000
Other income	1,825	**3,226**	2,954
	371,810	**410,932**	379,636
Expenses			
Salaries and benefits	78,382	**76,858**	70,344
General and administration (Note 12)	25,129	**24,476**	19,306
Interest expense (Note 11)	217,163	**218,079**	216,327
Project transaction and recoverable costs	21,025	**61,434**	43,765
Sub-contracting fees	10,263	**10,174**	9,974
Loan valuation allowance	-	**8,124**	-
	351,962	**399,145**	359,716
Surplus	19,848	**11,787**	19,920
Accumulated surplus, beginning of year	223,144	**223,144**	203,224
Accumulated surplus, end of year	$ 242,992	$ **234,931**	$ 223,144

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

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

	2020	2019
Accumulated remeasurement losses, beginning of year	**$ (32,915)**	$ (13,628)
Realized losses – reclassified to the Statement of Operations	**17,515**	18,844
Remeasurement losses	**(61,990)**	(38,131)
Net remeasurement losses in the year	**(44,475)**	(19,287)
Accumulated remeasurement losses, end of year	**$ (77,390)**	$ (32,915)

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

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

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

	2020	2019
Surplus	$ 11,787	$ 19,920
Acquisition of tangible capital assets	(7,629)	(3,592)
Amortization of tangible capital assets	1,759	1,229
Net remeasurement losses in the year	(44,475)	(19,287)
Net change in net financial assets	(38,558)	(1,730)
Net financial assets at beginning of year	185,280	187,010
Net financial assets at end of year	$ 146,722	$ 185,280

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

STATEMENT OF CASH FLOWS

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

	2020	2019
Operating activities		
Surplus	$ 11,787	$ 19,920
Items not requiring a current cash outlay:		
Loan valuation allowance	8,124	-
Amortization of loan concession costs	(4,648)	(5,236)
Amortization of tangible capital assets	1,759	1,229
Amortization of debt issue cost	684	783
Amortization of investment bond premium	983	1,415
	18,689	18,111
Changes in working capital items:		
Increase in restricted cash	(17,723)	(10,354)
(Increase)/decrease in accounts receivable	(14,679)	6,523
Decrease in interest receivable	1,088	172
Decrease/(increase) in investment income receivable	354	(219)
(Increase)/decrease in projects receivable	(15,014)	2,771
(Decrease)/increase in accounts payable	(100)	4,749
Decrease in accrued liabilities	(1,302)	(1,758)
Increase in liabilities held in trust	17,723	10,354
Decrease in interest payable	(5,736)	(16,385)
Increase in deferred revenue	7,466	11,347
(Cash used in)/provided by operating activities	(9,234)	25,311
Capital activities		
Acquisition of tangible capital assets	(7,629)	(3,592)
Cash used in capital activities	(7,629)	(3,592)
Investing activities		
Issuance of loans receivable	(518,185)	(402,237)
Proceeds from loan repayments	404,761	362,954
Purchase of investments	(17,010)	(62,300)
Proceeds from maturity of investments	23,000	62,300
Cash used in investing activities	(107,434)	(39,283)
Financing activities		
Increase in short term revolving credit facility	80,000	45,000
Proceeds from debt issuances	396,226	672,387
Debt repayments	(257,390)	(693,617)
Cash provided by financing activities	218,836	23,770
Net increase in cash	94,539	6,206
Cash, beginning of year	440,647	434,441
Cash, end of year	$ 535,186	$ 440,647

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

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2020

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 a board-governed agency.

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 advice and services, including project management, contract management and development, related to Government property to the Ministry of Government and Consumer Services (MGCS), or the Government when directed to do so in writing by the Minister;
- To provide certain advice and services to non-Ontario entities when directed to do so, in writing, by the Minister;
- To provide financial management for Government property managed by MGCS 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.

In March 2020, the COVID-19 pandemic resulted in organizations and governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, remote working and social distancing, have caused material disruption to businesses globally and resulted in a sudden economic slowdown. Notwithstanding this, management has evaluated the potential impact of the pandemic on the fair value of derivatives as well as the credit profile of our borrowers, the latter impacting the development of the estimates of the portfolio loan valuation allowance. Based on the additional evaluations undertaken at March 31, 2020, management has incorporated assumptions on the impact of the pandemic in these financial statements.

Financial instruments

Infrastructure Ontario's financial assets include cash, restricted cash, accounts receivable, interest receivable, investment income receivable, loans receivable, projects receivable, and investments.

Infrastructure Ontario's financial liabilities include accounts payable, accrued liabilities, liabilities held in trust, interest payable, derivatives, deferred revenue and the debt supporting the loan program.

Initial recognition and measurement

Financial instruments are classified at initial recognition as either (i) cost or amortized cost or (ii) fair value. In these financial statements, all financial instruments, other than derivatives are classified at cost or amortized cost. Derivatives are presented on a net basis on the Statement of Financial Position as either financial assets or liabilities depending if the net balance is either in a receivable or liability position. 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.

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 at the time of issuance. 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 remeasured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the Statement of Remeasurement 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

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.

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 remeasured 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 Remeasurement Gains and Losses and are subsequently re-classified to the Statement of Operations and Accumulated Surplus upon disposal or 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, management fees, and project transaction and recoverable costs

Project delivery fees and management fees represent the recovery of IO’s staff salaries and benefits, general and administration costs, and sub-contracting fees in delivering services. Project transaction and recoverable costs include the recovery of external advisor costs and project cost contingencies.

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. For fixed price contracts before financial close, revenue is recorded when an arrangement is in place, costs are incurred, and collectibility is reasonably assured. After financial close, revenue is recorded using the percentage of completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs. At final completion, any remaining margin on the fixed price contract is recognized. 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.

2. RESTRICTED CASH

Restricted cash includes funds held in trust for Infrastructure Ontario’s lending clients of $145.4 million (2019 - $136.8 million) and project construction consortiums of $19.6 million (2019 - $10.4 million), detailed further in Note 18.

3. ACCOUNTS RECEIVABLE

($ thousands)	2020	2019
Net trade accounts receivable	$ 51,999	$ 37,394
HST receivable	1,476	1,402
	$ 53,475	$ 38,796

4. LOANS RECEIVABLE

($ thousands)		2020			2019	
Construction advances			Interest %			Interest %
Infrastructure renewal loan program	$	**286,085**	**1.89-2.68**	$	209,127	2.22-3.20
Debentures receivable						
Concessionary loan program						
Maturity terms:						
6 to 10 years		-	-		527	2.08-2.14
11 to 15 years		**9,264**	**2.28-2.63**		14,668	2.28-2.67
16 to 20 years		**164,126**	**2.36-2.95**		187,675	2.36-2.95
Greater than 20 years		**50,005**	**2.52-3.05**		52,870	2.52-3.05
		223,395			255,740	
Infrastructure renewal loan program						
Maturity terms:						
1 to 5 years		**32,870**	**1.45-3.56**		50,999	1.18-3.56
6 to 10 years		**555,239**	**1.52-5.73**		573,411	1.52-5.73
11 to 15 years		**530,151**	**2.24-5.26**		604,694	2.24-5.26
16 to 20 years		**1,539,697**	**2.30-5.89**		1,433,848	2.71-5.89
Greater than 20 years		**2,937,045**	**2.52-5.91**		2,863,239	2.77-5.91
		5,595,002			5,526,191	
Total		**6,104,482**			5,991,058	
Deferred costs on concessionary loans						
Deferred costs, beginning of year		**(25,354)**			(30,590)	
Amortization of concession costs		**4,648**			5,236	
Deferred costs, end of year		**(20,706)**			(25,354)	
Loan valuation allowance		**(31,173)**			(23,049)	
Loans receivable	$	**6,052,603**		$	5,942,655	

Construction advances are loans due from municipalities, other public sector bodies and not for profit entities. The interest rate on these construction loans is based on the Ontario three month treasury bill 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, 2020, Infrastructure Ontario has a loan valuation allowance of $31.1 million (2019 - $23.0 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 entered into with respect to back to back loans since it was initiated 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, 2020, 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	Within 2 to 5 Years	Within 6 to 10 Years	Within 11 to 15 Years	Over 15 Years	Total Notional Value
Liability swap	$ 222,000	744,482	-	-	852,857	$ 1,819,339
Asset swap	$ 261,251	1,011,410	806,910	471,240	545,699	$ 3,096,510

Derivatives are recorded at fair value as at March 31, 2020 resulting in net derivative liabilities of $77.4 million and accumulated unrealized losses on the Statement of Remeasurement Gains and Losses of $77.4 million (2019 – net derivative liabilities of $32.9 million on the Statement of Financial Position and accumulated unrealized losses on the Statement of Remeasurement Gains and Losses of $32.9 million). Fair values 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, 2020, all interest rate swap agreements are with the Province.

6. PROJECTS RECEIVABLE

Projects receivable are amounts which have been recognized as revenue either on a percentage of completion basis 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, 2020, the interest rates on these investments ranged from 2.30% to 3.50% (2019 – 2.10% to 4.40%) with maturities from September 2023 to September 2024.

8. ONTARIO FINANCING AUTHORITY (OFA) CREDIT FACILITY

Infrastructure Ontario has a 5 year subordinated revolving credit facility of up to $100.0 million with the OFA, an agency of the Province, to provide working capital for the Public-Private Partnership (P3) program. Advances are to be repaid on completion of projects. As at March 31, 2020 and 2019, the full balance of the facility remains undrawn.

9. DEBT AND CAPITAL – LOAN PROGRAM

All facilities are available exclusively for the lending program.

($ thousands)		2020			2019	
a) Debt - loan program			Interest %			Interest %
Senior debt						
Infrastructure Renewal Bonds	**$**	**300,000**	**4.70**	$	300,000	4.70
Subordinate debt						
Short-term revolving credit facility		**295,000**	**1.81-1.90**		215,000	1.83-1.97
Ontario Immigrant Investor Corporation loans		**-**	**-**		42,000	2.12-2.28
OIPC/OILC bonds		**1,815,000**	**2.92-4.96**		1,915,000	2.92-4.96
Long-term non-revolving credit facility						
Fixed		**2,778,327**	**1.24-3.58**		2,497,491	1.21-3.58
Floating Rate Notes (FRN)		**960,000**	**1.41-1.69**		960,000	2.19-2.47
		6,148,327			5,929,491	
Debt issue costs		**(4,226)**			(4,910)	
	$	**6,144,101**		$	5,924,581	
b) Capital - loan program						
Province of Ontario loan	**$**	**279,681**	**0.70**	$	279,681	1.90
Ontario Clean Water Agency loan		**120,000**	**1.70**		120,000	2.00
	$	**399,681**		$	399,681	

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

The following table illustrates the debt principal and estimated interest payments for the next five years and thereafter:

($ thousands) Fiscal year		Amount
2020-2021	$	981,619
2021-2022		386,936
2022-2023		866,794
2023-2024		856,140
2024-2025		398,836
Thereafter		5,157,089
	$	**8,647,414**

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

In May 2014, Infrastructure Ontario began issuing short term notes under a short term revolving credit facility to fund its short term construction loans. Effective May 2019, the revolving credit facility with the Province is authorized to issue a maximum of $600 million for terms ranging from three months to one year, with an expiry date of May 2024. As at March 31, 2020, maturities ranged from April 2020 to May 2020, while interest on the notes ranged from 1.81% to 1.90% (2019 – 1.83% to 1.97%).

Ontario Immigrant Investor Corporation Loans

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province, provided five-year subordinated loans. The loans were subordinated obligations of Infrastructure Ontario and rank behind all other existing and future senior obligations of Infrastructure Ontario. The bonds matured in July 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 of Infrastructure Ontario.

As at March 31, 2020, interest on fixed rate bonds ranged from 2.92% to 4.96% (2019 – 2.92% to 4.96%) per annum and maturities ranged from June 2020 to June 2045. Interest is paid semi-annually on these bonds until maturity.

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 2018, Infrastructure Ontario was approved to borrow an additional $4.0 billion from the Province for the purposes of funding the loan program from November 2018 to May 2022. As at March 31, 2020, $3.4 billion of the facility is available and undrawn.

As at March 31, 2020, interest with fixed rates on the back to back loans ranged from 1.24% to 3.58% (2019 – 1.21% to 3.58%) and maturities ranged from June 2020 to March 2050. The FRNs bear interest from three month CDOR plus 17 basis points to three month CDOR plus 45 basis points and the maturity of the notes ranged from September 2022 to June 2025. Interest is reset and paid quarterly until the maturity of the FRN's.

Province of Ontario Loan

The Province provided Infrastructure Ontario with a 50 year subordinated loan of approximately $280 million in exchange for a promissory note that matures on March 31, 2053. The interest on the note is reset quarterly at the Province's three-month Treasury bill rate and payable quarterly. On March 31, 2020, interest on the note was reset at 0.70% (2019 – 1.90%).

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 CDOR payable quarterly. On March 31, 2020, interest on the note was 1.70% (2019 – 2.00%).

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, 2020				
($ thousands)	**Computer Equipment**	**Software**	**Furniture, Fixtures and Office Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance, April 1, 2019	$ 19,561	$ 4,700	$ 2,630	$ 12,658	$ 39,549
Additions	629	2,034	-	4,966	7,629
Balance, March 31, 2020	20,190	6,734	2,630	17,624	47,178
Accumulated amortization					
Balance, April 1, 2019	18,348	4,260	2,057	9,935	34,600
Additions	800	313	65	581	1,759
Balance, March 31, 2020	19,148	4,573	2,122	10,516	36,359
Net book value - March 31, 2020	**$ 1,042**	**$ 2,161**	**$ 508**	**$ 7,108**	**$ 10,819**

Total capital asset additions was $7.6 million for the year ended March 31, 2020 as compared to a budget of $8.7 million.

	Year ended March 31, 2019				
($ thousands)	Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost					
Balance, April 1, 2018	$ 18,956	$ 4,413	$ 2,256	$ 10,332	$ 35,957
Additions	605	287	374	2,326	3,592
Balance, March 31, 2019	19,561	4,700	2,630	12,658	39,549
Accumulated amortization					
Balance, April 1, 2018	17,531	4,179	2,011	9,650	33,371
Additions	817	81	46	285	1,229
Balance, March 31, 2019	18,348	4,260	2,057	9,935	34,600
Net book value - March 31, 2019	$ 1,213	$ 440	$ 573	$ 2,723	$ 4,949

11. INTEREST INCOME (EXPENSE)

($ thousands)		2020		2019
Interest revenue	$	**240,954**	$	240,450
Interest expense		**(218,079)**		(216,327)
Net interest margin	$	**22,875**	$	24,123

The breakdown of interest expense on debt is as follows:

Program funding				
Infrastructure Renewal Bonds	$	**(14,177)**	$	(14,023)
Short-term revolving credit facility		**(5,570)**		(3,904)
Ontario Immigrant Investor Corporation Loans		**(140)**		(2,988)
OIPC/OILC Bonds		**(70,867)**		(76,728)
Long-term non-revolving credit facility		**(100,924)**		(90,915)
		(191,678)		(188,558)
Interest rate swap costs		**(17,515)**		(18,844)
Debt issue cost amortization		**(684)**		(783)
Investment bond premium amortization		**(983)**		(1,415)
		(210,860)		(209,600)
Capital funding				
Province of Ontario loan		**(4,907)**		(4,491)
Ontario Clean Water Agency loan		**(2,312)**		(2,236)
		(7,219)		(6,727)
Total interest expense	$	**(218,079)**	$	(216,327)

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

Cash interest received	$	**237,604**	$	235,204
Cash interest paid		**(222,147)**		(230,515)
		15,457		4,689
Non-cash interest				
Amortization of loan concession costs (Note 4)		**4,648**		5,236
Other non-cash interest		**2,770**		14,198
Net interest margin	$	**22,875**	$	24,123

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

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2020

12. GENERAL AND ADMINISTRATION EXPENSES

($ thousands)		2020 Budget		**2020**		2019
Information technology	$	8,337	**$**	**$8,402**	$	7,610
Premises		5,778		**5,984**		5,806
Professional and consulting		7,205		**6,584**		3,224
Office and administration		1,822		**1,646**		1,327
Communications		285		**101**		110
Amortization		1,702		**1,759**		1,229
	$	25,129	**$**	**24,476**	$	19,306

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, the Ministry of the Attorney General, the Ministry of Government and Consumer Services, the Ministry of the Solicitor General, the Ministry of Transportation and the Ministry of Infrastructure.

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

1. Project delivery fees and project transaction and recoverable costs:
   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. Project transaction and recoverable costs include external advisor services and project cost contingencies.

2. Management fees:
   Fees charged for services, including property and project management, provided to MGCS's General Real Estate Portfolio (GREP) and the corporate realty portfolio.

Infrastructure Ontario has interest bearing loans from the Province and OCWA (Note 9) and a line of credit with the OFA (Note 8).

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, 2020 was $4.0 million (2019 – $3.6 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 $0.3 million for the year ended March 31, 2020 (2019 – $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 MGCS 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, 2020 was $6,052.6 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, 2020 is as follows:

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2020

($ thousands)	Outstanding	Loan Valuation Allowance [2]	2020	2019
Tier 1				
Municipalities	$ 3,770,305			
City of Toronto (as guarantor)	1,059,973			
Universities	125,000			
Local service boards	227			
Social housing (with municipal guarantee)	147,034			
Affordable housing (with municipal guarantee)	1,169			
Community health & social service hubs (with municipal guarantee)	6,302			
Sports & Recreation (with municipal guarantee)	54,623			
	5,164,633	**(706)**	**5,163,927**	5,028,032
Tier 2				
Local distribution corporations	173,831			
Long-term care	139,871			
Affordable housing (insured by CMHC)[1]	134,174			
Affordable housing (not insured by CMHC)[1]	134,307			
Social housing	94,357			
Aboriginal health access centres	1,630			
Community health & social service hubs	18,628			
	696,798	**(4,711)**	**692,087**	702,900
Tier 3				
Power generators	95,062			
District energy	23,707			
Municipal corporations (other)	29,141			
Beneficial entities (arts training, etc.)	83,600			
Sports and recreation	11,541			
	243,051	**(25,756)**	**217,295**	237,077
Deferred costs on concessionary loans				
Deferred costs, beginning of year	(25,354)			
Amortization of concession costs	4,648			
Deferred costs, end of year	**(20,706)**	**-**	**(20,706)**	(25,354)
Loans receivable	**$ 6,083,776**	**$ (31,173)**	**$ 6,052,603**	$ 5,942,655

[1] CMHC is defined as Canada Mortgage and Housing Corporation.
[2] Consists of $26.6 million for general loan valuation allowance and $4.5 million for specific loan valuation allowance.

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, restricted cash, receivables and investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2020 was:

($ thousands)	2020	Past Due >90 days
Cash	$ 535,186	$ -
Restricted cash	164,971	-
Accounts receivable	53,475	13,733
Interest receivable	44,687	-
Investment income receivable	1,902	-
Projects receivable	45,342	-
Investments	169,117	-
	$ 1,014,680	$ 13,733

Market risk

Market risk is the risk that the fair value or future cash flows for 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 that the fair value of future cash flows for 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 loans issued after April 1, 2015.

Management also manages 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

A +/- 100 basis point change in the interest rate for the year ended March 31, 2020 would have had a $4.5 million / ($4.5 million) impact on the surplus/(deficit), and a $52.9 million / ($51.0 million) impact on the accumulated remeasurement gains (losses).

Liquidity risk

Liquidity risk is the risk Infrastructure Ontario will not be able to meet its financial obligations as they come due. This risk is managed through capital funding, which is funded by long-term subordinated loans provided by the Province and the OCWA. The capital funding is partially invested in 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. All borrowing is made with prudent consideration of interest rate and liquidity risks and complies with the treasury policy. 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, 2020:

($ thousands)	Within 1 year	1 to 5 years	Over 5 years	Total
Accounts payable	$ 6,798	$ -	$ -	$ 6,798
Accrued liabilities	24,348	-	-	24,348
Liabilities held in trust	164,971	-	-	164,971
Interest payable	44,038	-	-	44,038
Derivative liabilities	(1,311)	(35,974)	114,675	77,390
Debt and capital – principal and interest	981,619	2,508,706	5,157,089	8,647,414
Total financial liabilities	**$ 1,220,463**	**$ 2,472,732**	**$ 5,271,764**	**$ 8,964,959**

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 and thereafter are:

($ thousands)

Fiscal year	Amount
2020-2021	$ 4,634
2021-2022	4,212
2022-2023	3,891
2023-2024	3,964
2024-2025	4,164
Thereafter	14,180
	$ 35,045

Infrastructure Ontario has $296.1 million of unadvanced loan commitments as at March 31, 2020.

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. In addition, certain borrowers set up reserve funds in the trust account as a requirement of the loan agreement. As at March 31, 2020, the funds under administration were $145.4 million (2019 – $136.8 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, 2020, Infrastructure Ontario held $19.6 million (2019 – $10.4 million) in its project trust general ledger account.

Infrastructure Ontario maintains several operating bank accounts which it holds in trust and administers on behalf of MGCS. These accounts relate directly to the operations of MGCS'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 MGCS as at March 31, 2020 were $191.1 million (2019 – $197.7 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 table below is a summary of financial information by segment:

	For the year ended March 31, 2020				
($ thousands)	Project Delivery	Real Estate	Lending	Commercial Projects & TOC [1]	Total
Revenues					
Interest revenue	$ -	$ -	$ 240,954	$ -	$ 240,954
Project delivery fees	43,965	-	-	5,620	49,585
Management fees - GREP	-	51,695	-	-	51,695
Management fees - Corporate Realty	-	4,038	-	-	4,038
Project transaction and recoverable costs	49,716	6,422	-	5,296	61,434
Other income	-	999	2,227	-	3,226
	93,681	63,154	243,181	10,916	410,932
Expenses					
Salaries and benefits	30,776	37,113	4,571	4,398	76,858
General and administration	11,450	10,033	2,019	974	24,476
Interest expense	-	-	218,079	-	218,079
Project transaction and recoverable costs	49,716	6,422	-	5,296	61,434
Sub-contracting fees	-	10,174	-	-	10,174
Loan valuation allowance	-	-	8,124	-	8,124
	91,942	63,742	232,793	10,668	399,145
Surplus/(deficit)	**$ 1,739**	**$ (588)**	**$ 10,388**	**$ 248**	**$ 11,787**

[1] TOC is defined as Transit Oriented Communities.

($ thousands)	For the year ended March 31, 2020 - Budget				
	Project Delivery	Real Estate	Lending	Commercial Projects & TOC	Total
Revenues					
Interest revenue	$ -	$ -	$ 241,752	$ -	$ 241,752
Project delivery fees	45,633	-	-	5,193	50,826
Management fees - GREP	-	51,695	-	-	51,695
Management fees - Corporate Realty	-	4,687	-	-	4,687
Project transaction and recoverable costs	21,025	-	-	-	21,025
Other income	-	1,200	625	-	1,825
	66,658	57,582	242,377	5,193	371,810
Expenses					
Salaries and benefits	32,330	37,249	4,623	4,180	78,382
General and administration	11,762	10,070	2,284	1,013	25,129
Interest expense	-	-	217,163	-	217,163
Project transaction and recoverable costs	21,025	-	-	-	21,025
Sub-contracting fees	-	10,263	-	-	10,263
	65,117	57,582	224,070	5,193	351,962
Surplus	**$ 1,541**	**$ -**	**$ 18,307**	**$ -**	**$ 19,848**

	Year-ended March 31, 2020 vs. Budget				
($ thousands)	Project Delivery	Real Estate	Lending	Commercial Projects & TOC	Total
Revenues					
Interest revenue	$ -	$ -	$ (798)	$ -	$ (798)
Project delivery fees	(1,668)	-	-	427	(1,241)
Management fees - GREP	-	-	-	-	-
Management fees - Corporate Realty	-	(649)	-	-	(649)
Project transaction and recoverable costs	28,691	6,422	-	5,296	40,409
Other income	-	(201)	1,602	-	1,401
	27,023	5,572	804	5,723	39,122
Expenses					
Salaries and benefits	1,554	136	52	(218)	1,524
General and administration	312	37	265	39	653
Interest expense	-	-	(916)	-	(916)
Project transaction and recoverable costs	(28,691)	(6,422)	-	(5,296)	(40,409)
Sub-contracting fees	-	89	-	-	89
Loan valuation allowance	-	-	(8,124)	-	(8,124)
	(26,825)	(6,160)	(8,723)	(5,475)	(47,183)
Variance favourable/ (unfavourable)	**$ 198**	**$ (588)**	**$ (7,919)**	**$ 248**	**$ (8,061)**

($ thousands)	For the year ended March 31, 2019 Project Delivery	Real Estate	Lending	Commercial Projects & TOC	Total
Revenues					
Interest revenue	$ -	$ -	$ 240,450	$ -	$ 240,450
Project delivery fees	38,524	-	-	1,897	40,421
Management fees - GREP	-	46,298	-	-	46,298
Management fees - Corporate Realty	-	5,513	-	-	5,513
Project transaction and recoverable costs	36,500	5,187	-	2,313	44,000
Other income	-	1,378	1,576	-	2,954
	75,024	58,376	242,026	4,210	379,636
Expenses					
Salaries and benefits	28,270	35,069	4,470	2,535	70,344
General and administration	8,334	8,146	2,298	528	19,306
Interest expense	-	-	216,327	-	216,327
Project transaction and recoverable costs	36,265	5,187	-	2,313	43,765
Sub-contracting fees	-	9,974	-	-	9,974
	72,869	58,376	223,095	5,376	359,716
Surplus/(deficit)	**$ 2,155**	**$ -**	**$ 18,931**	**$ (1,166)**	**$ 19,920**

($ thousands)	Project Delivery	Real Estate	Lending	Commercial Projects & TOC	Total
	Year-ended March 31, 2020 vs. March 31, 2019				
Revenues					
Interest revenue	$ -	$ -	$ 504	$ -	$ 504
Project delivery fees	5,441	-	-	3,723	9,164
Management fees - GREP	-	5,397	-	-	5,397
Management fees - Corporate Realty	-	(1,475)	-	-	(1,475)
Project transaction and recoverable costs	13,216	1,235	-	2,983	17,434
Other income	-	(379)	651	-	272
	18,657	4,778	1,155	6,706	31,296
Expenses					
Salaries and benefits	(2,506)	(2,044)	(101)	(1,863)	(6,514)
General and administration	(3,116)	(1,887)	279	(446)	(5,170)
Interest expense	-	-	(1,752)	-	(1,752)
Project transaction and recoverable costs	(13,451)	(1,235)	-	(2,983)	(17,669)
Sub-contracting fees	-	(200)	-	-	(200)
Loan valuation allowance	-	-	(8,124)	-	(8,124)
	(19,073)	(5,366)	(9,698)	(5,292)	(39,429)
Variance favourable/ (unfavourable)	**$ (416)**	**$ (588)**	**$ (8,543)**	**$ 1,414**	**$ (8,133)**

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