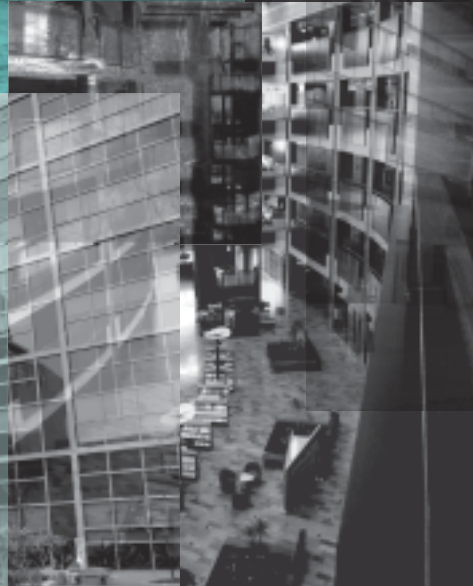
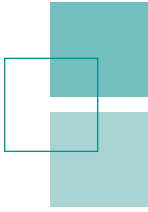




Ontario
Realty
Corporation

Annual Report **2004–2005**





The Honourable David Caplan
Minister of Public Infrastructure Renewal
6th Floor, Mowat Block,
900 Bay Street
Toronto, Ontario
M7A 1C2

Dear Minister:

I am honoured to present you with the 2004-2005 Annual Report of the Ontario Realty Corporation.

This represents a 'first' of sorts for both of us. This is my first Annual Report as Chairperson of the ORC Board, and the first time you will receive the agency's Annual Report since responsibility for ORC was transferred from Management Board Secretariat (MBS) to you in 2005.

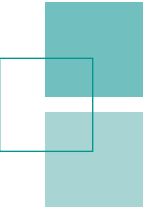
The Board looks forward to your on-going input as we continue to guide the Corporation to provide the government strategic solutions and sound advice.

Respectfully submitted.



Carol Gray
Chairperson

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MESSAGE FROM THE CHAIRPERSON



As Chairperson of the Ontario Realty Corporation (ORC), I am delighted to take on this role, effective July 2005, and be part of an organization with a strong commitment to providing its clients with excellence in real estate management.

In 2004-2005 we enhanced our capacity to provide strategic solutions and sound advice to the government on its real property requirements through analysis of the government's current and future accommodation needs from local, regional and larger corporate perspectives. Planning for both short- and long-term requirements will help clients contribute to the government's plan to achieve annualized savings for accommodations of \$50 million by March 31, 2008.

As a service-driven organization, client and stakeholder outreach and responsiveness continued to be a priority. The newly realigned ORC began to use Account Teams to strengthen relationships with client ministries and deliver a higher level of support. We continued to reinforce our relationship with the design/construction sector. Through a standing committee with senior level representation from ORC and major industry associations, we continued to find ways together to deliver enhanced services to the provincial government.

Through our management of the government's large building portfolio, we are well positioned to undertake a leadership role on behalf of the provincial government in realizing energy efficiencies. By implementing a comprehensive strategy over the past year to conserve power, ORC was able to reduce the amount of electricity used in provincial facilities. We will continue to strive to conserve electricity in order to support the government's initiative to reduce electricity consumption in its own operations by 10% by 2007.

Long recognized as an innovator in building management, last year ORC and the SNC-Lavalin ProFac Inc. team's efforts were acknowledged with a Building Owners and Managers Association (BOMA) Award for environmental excellence for the A. Grenville & William Davis Courthouse in Brampton. Additional honours in 2004 included BOMA Canada's prestigious Building of the Year Award in the Renovated Building Category for the John Sopinka Courthouse in Hamilton.

It has been an exciting year at the ORC. The corporation's accomplishments and the current work in progress are the result of a collaborative effort between management and Board members.

We understand that as more results are expected from our clients, we must raise our performance bar to assist them in achieving their goals. Now that the organizational changes have been addressed at ORC, we must vigorously implement our strategies for client satisfaction, strategic real estate advice and reducing the costs of accommodation. I am confident that this can be achieved with a high functioning management team and a supportive Board that adheres to a sound governance framework.

Finally, I would like to thank all Board members and especially Committee Chairs for their leadership and Michael Fenn, the outgoing acting chair, for his significant contribution. I would also like to recognize those Board members whose terms have recently concluded.

Carol Gray
Chairperson



As a company with private and public sector influences, ORC's vision is to be a benchmark in public sector real property and accommodation management, acting as the sole provider of real property and accommodation, including strategic real estate advice to the government of Ontario. Stemming from this vision, ORC developed corporate objectives that were cascaded throughout the organization. In fiscal 2004-2005, the corporation's goals and objectives were tightly aligned to the priorities of our Minister, the Chair of Management Board.

Specifically, I would like to highlight key accomplishments made in fiscal 2004-2005.

1. Customer Service Objective

Key priorities for fiscal 2004-2005 included enhancing our strategic planning and policy capacity to provide portfolio and accommodation advice and the establishment of an 'account team' structure to improve service to client ministries. These changes involved a significant realignment of resources within the corporation and were necessary to meet the needs of our customers. Throughout the fiscal year, ORC introduced the account team structure with full complement in place by March 31, 2005. Most (83.3%) of our client ministries' Chief Administrative Officers involved with the first phase of implementation felt there was an improvement in service.

2. Strategic Accommodation Planning

ORC developed a comprehensive strategy for the province whereby we develop and recommend opportunities to our client ministries for ongoing space utilization, cost containment, liability reduction, and priorities for capital spending. Significant accomplishments for fiscal 2004-2005 included 15 community reviews; development of a downtown Toronto leasing strategy with a potential annual savings of \$1.2 million; and development of a deferred maintenance plan with funds allocated for capital repairs for the next four years. In fiscal 2005-2006, we plan to have an additional 14 community reviews completed. This will significantly support the Government's \$50 million Accommodations Savings Initiative.

As well, ORC developed a leasing strategy to reduce costs, reduce space, and mitigate market risk, while completing over 150 lease documents in fiscal 2004-2005.

3. Energy Management and Conservation

To demonstrate leadership for residential and business energy users, the Ontario Government committed to reducing its own electricity use by at least 10% by 2007. For ORC, this translates into reducing consumption by at least 39.7 million kWh in government owned buildings from the 2002-2003 base year.

It is with the continued dedication of our staff and the leadership of the Board that ORC will continue to meet the challenges ahead. I would like to express my gratitude to them for their hard work and dedication.

Tony Miele
President and Chief Executive Officer



The Ontario government's real estate portfolio is one of the largest and most diverse in Canada.

Strategic Foundation

Introduction to the Ontario Realty Corporation

ORC was established in 1993 as a crown corporation. It became an Operational Enterprise Agency on November 30, 2001, with the financial and operating authority to carry on a business.

The corporation operates within the framework of government policies, priorities and programs, and real estate market conditions.

Corporate Governance

ORC is governed by the *Capital Investment Plan Act, 1993 (CIPA)*. Pursuant to subsection 58 of CIPA, the responsibility of the Corporation includes the provision of services and financing to the Ontario government and its programs related to real property and improvements to real property.

The Corporation's line of accountability in fiscal 2004-2005 was as follows below.

The President and CEO was responsible and accountable to ORC's Chairperson and Board of Directors. The Board through the Chairperson was accountable to the Chair of Management Board of Cabinet.

Mandate

ORC is the strategic manager of the government's real property, optimizing value through the rationalization of the portfolio, promoting high professional standards and enhancing customer service while ensuring real estate decisions reflect public policy objectives of the government.

Vision

ORC, a hybrid company with both private and public sector influences, will be a bench-mark in public sector real estate management, acting as the sole provider of realty services, including strategic real estate advice, to the government.

Value Statement

ORC will operate utilizing the best private and public sector business practices in a transparent and accountable manner and building partnerships through an exceptional team of professional and customer service-driven employees.



Core Services

In its contract to manage the real estate assets for the Government of Ontario, ORC, as a fee-for-service corporation, provides the following five core services:

- **Strategic Planning** – development of policies and strategies to maximize the use of the portfolio and development of plans to implement strategies developed, including adherence to all environmental laws and regulations.
- **Project Management** – management of major capital repair and renovation projects undertaken to facilitate government program delivery.
- **Property Management** – day-to-day management of owned and leased properties and land to support Ministry program needs.
- **Marketing and Sales** – disposal of surplus assets as a result of the changing requirements for land and buildings used for government programs.
- **Leasing Services** – acquisition of additional space to augment the inventory of owned properties used to provide accommodation of Ministry program needs.

The five core services are supported by internal Corporate Services, which include Legal, Corporate Relations, Human Resources, Finance, and Information Technology.

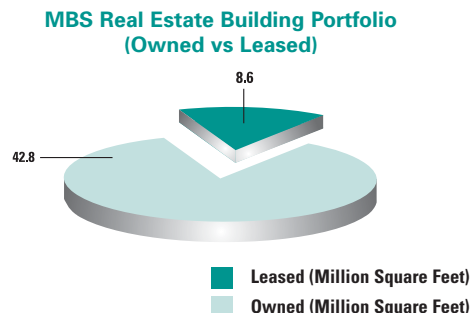


Scope of Operations

ORC manages, on behalf of the province, approximately 6,000 buildings, more than 50 million square feet of space and 90,000 acres of land (includes Hydro One corridor lands).

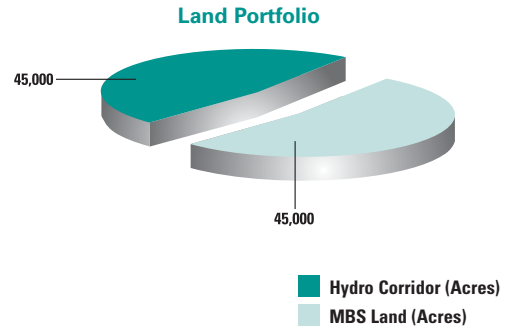
This diverse real estate portfolio of leased and owned properties extends throughout the province and is currently in approximately 130 communities. When it comes to finding accommodations, government owned facilities are utilized along with available space within the marketplace. Overall, about 42.8 million square feet of space in use across the province, is government owned. Another 8.6 million square feet of space is leased from third-party landlords.

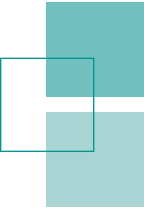
The portfolio includes a wide variety of properties ranging from jails/detention centres to office space and heritage buildings.



CORPORATE OVERVIEW

The Government of Ontario assumed ownership of approximately 45,000 acres of Hydro One Networks transmission corridor land on December 31, 2002. The purpose of the transfer was to protect corridor land so that it remains available for uses that benefit the public, while recognizing the primacy of transmission and distribution uses. ORC is the agency responsible for administering all secondary land use agreements. ORC is responsible for working with municipalities on secondary land use planning. In addition, ORC manages the sale of surplus corridor lands and is also responsible for the management of 45,000 additional acres of land on behalf of the government.





Corporate Realignment – Strategic Real Estate Advice & Improved Customer Service

The corporate realignment in fiscal 2004-05 represented a significant shift in the way ORC interacts with and provides services to its client ministries. Along with the ability to better support ministry program delivery through enhanced strategic planning, all of ORC's business units are focusing their energies on providing improved customer service.

Specifically, ORC increased its capability to develop real estate strategy and accommodation solutions through the dedicated Strategic Planning and Policy Group.

In addition, ORC completed the phasing-in of Account Teams aimed at providing ministries with a higher level of dedicated support. Four teams focusing on a cluster of provincial ministries are now in place.

By the end of the fiscal year, enhanced relationships and collaboration between ORC and client ministries resulted in an improved sharing of information paving the way for ORC to develop better real estate solutions.

ORC Areas of Focus in Fiscal 2004-2005

1. Develop and implement a strategic approach to accommodation that meets the current and future realty requirements of the Ontario government. By focusing on short- and long-term strategies, occupancy costs will be managed and real estate liabilities reduced;

2. Reduce the costs of carrying the Real Property portfolio;
3. Develop and implement a long-term capital investment plan to address economic sustainability of assets;
4. Reduce energy consumption;
5. Use real estate to support government policy, e.g. affordable housing, co-location, common counter/service delivery integration;
6. Effect conveyance of Seaton Lands.

ORC developed Corporate Objectives and targets for fiscal 2004-2005 that aligned with these areas of focus. The following are highlights of accomplishments in ORC's Corporate Objectives.

Accommodation Planning

- ORC developed and began implementation of a strategic approach to accommodation planning, which defined opportunities to effect system-wide changes in how the government uses space in order to realize savings. Planning of accommodation was recognized as particularly important in Toronto where the Government of Ontario is a major tenant, occupying over three million square feet of leased office space. The strategies, developed and implemented in fiscal 2004-2005, include relocation to less expensive space, identification of opportunities for consolidation or co-location, more effective lease negotiation tactics and application of space standards to reduce existing space, where feasible. In fiscal 2005-2006, ORC will continue to identify potential savings opportunities to the government related to accommodation.

PRIORITIES AND HIGHLIGHTS 2004-2005



- A significant accomplishment for fiscal year 2004-2005 was the preparation of 15 community reviews. Keeping in mind the need to validate ongoing space utilization, while considering cost containment, reduction of liability and priorities for capital spending, the approach identifies opportunities for efficient capital expenditure and accommodation use at two levels: the community and at the individual ministry level. The aggregated summaries of these two levels of information are then used to continue to improve and enhance the Accommodation Plan. Fiscal 2005-2006 will continue to focus on updating community reviews within the province.

Implementation of a leasing strategy to achieve savings (based on the difference between final negotiated total cost of net effective rent for the renewal period and amount budgeted by client ministry for renewal)

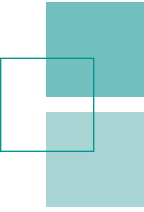
- ORC exceeded its savings target, which resulted in a total savings on negotiated leases of \$5.1 million.

Apply Capital Evaluation model to the portfolio to optimize spending

- This year, ORC completed six site reviews representing 72 buildings, as part of an overall portfolio assessment. The Capital Repair Plan was expanded from a five-year plan to a 10-year plan.

Reduce energy consumption within the portfolio to achieve government targets

- In order to demonstrate leadership for residential and business energy users, the Ontario government committed to reducing its own electricity use by at least 10 per cent by 2007. This target translates to approximately 62 million kilowatt hours (kWh) in government facilities. For ORC, this means reducing consumption by at least 39.7 million kWh from the 2002-2003 base year. ORC will strive to exceed the 39.7 million kWh target, however, other ministries share the task of reducing the remaining 22.3 million kWh. Early investment is crucial as consumption reductions must be measured and accumulated over the four-year period in order to achieve the target. There were 106 electricity conservation projects completed in 2004-2005 and 43 additional projects initiated and scheduled for completion in 2005-2006. There are an additional 128 electricity conservation projects planned for the upcoming fiscal year. Negotiations were completed for implementation in the Queen's Park building complex of a new technology based on Deep Lake Water Cooling.



- Implementation by ORC of these numerous electricity conservation projects will assist the Government of Ontario in meeting its target to reduce electricity consumption in its own operations by 10 per cent by 2007. However, energy conservation is both fiscally and environmentally responsible and will remain an important priority in the operation and maintenance of government-owned buildings beyond the successful achievement of the 2007 conservation target.

Support of other government policy initiatives

- In October 2004, the Government approved a policy to use surplus government land for the development of housing in the Affordable Housing Program. ORC completed an initial screen for the Ministry of Public Infrastructure Renewal (PIR) of approximately 30 potential sites. PIR, MBS and ORC then developed a protocol to identify surplus government sites and 11 sites have been identified as potential. PIR has been delegated responsibility for developing and implementing the Affordable Housing Program but has entered into a service level agreement with ORC for the delivery of the initiative.
- In support of the government initiative of ServiceOntario and common counters, ORC produced a GIS database for the former Ministry of Consumer and Business Services (MCBS) of all MCBS locations and all federal government locations throughout the province to help identify co-location opportunities.
- In fiscal 2004-2005, ORC continued to work cooperatively with the federal government on a number of fronts focusing on matters such as ethics, real property renewal, and increased collaboration. ORC President and CEO Tony Miele, as well as members of the senior management team, initiated regular meetings with the Ontario division of Public

Works Government Services Canada (PWGSC) to discuss, develop and implement means to improve service and efficiency through collaboration. This initiative is driven by the May 2004 Memorandum of Agreement (MOA) on Collaboration in the Delivery of Public Service between the federal and provincial governments to cooperate on issues related to policy, governance and accountability. Key components of the MOA include improved service quality, enhanced access to service, and enhancing efficient service by co-locating offices where possible.

Seaton Land Exchange

- ORC continues to conduct a category “C” Environmental Assessment (EA) for the acquisition of lands on the Oak Ridges Moraine in Richmond Hill and the disposition of government-owned lands in Pickering, also known as Seaton. The EA is on schedule according to the timelines which have been extended through the public consultation process.



Other Accomplishments

Building Relations

Symposium

ORC and the design/construction sector took a major step forward in strengthening their working relationships. ORC, the Ontario Association of Architects (OAA), the Ontario General

Contractors Association (OGCA) and the Consulting Engineers of Ontario (CEO) held a special one-day symposium in Toronto in May 2004.

One of the key activities of the gathering was the signing of a Memorandum of Understanding between all the parties, a result of ongoing dialogue to determine better ways to deliver enhanced services to provincial government projects. ORC and the design/construction sector pledged to continue the spirit of cooperation to develop solid working relationships in an effort to network, share ideas, and identify opportunities.

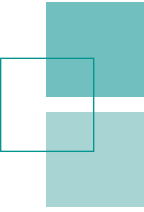
Transparency

ORC demonstrated leadership in its commitment to transparency. Governed by such provincial disclosure legislation as the *Freedom of Information and Protection of Privacy Act* and the *Public Salary Disclosure Act*, ORC feels it has a broader responsibility to its clients, partners, employees and the public to demonstrate that its corporate advocacy of transparency is both authentic and systemic.

The Corporation engaged an outside firm, which undertook an extensive transparency evaluation. It is believed ORC is the first provincial agency in Canada to open itself to a thorough assessment of its commitment to openness and transparency.

Through the evaluation, ORC was found to be *open and transparent*. ORC sees this evaluation as a start. Throughout the evaluation process, ORC was learning and has already implemented a number of changes, but still recognizes there is room for improvement.





Portfolio Strategy and Asset Management Division

The division consists of four service areas responsible for all the strategy development, planning and execution of agreements relating to ownership and the lease of real property.

This division's four departments and their business units are:

- Strategic Planning and Policy
 - Strategic Asset Management
 - Strategic Capital Planning
 - Corporate Policy
 - Corporate Planning and Measurement
- Asset Review
 - Environment and Cultural Heritage
 - Land Use Planning
 - Appraisal
 - Realty Tax Management
 - Survey, Land Title, Mapping
 - Property Inventory Information
- Sales and Acquisitions
- Leasing Services

Property Management and Client Service Division

This division consists of three service functions responsible for management of all owned/leased facilities and land within the portfolio; management of the relationship between ORC and its clients; and management of capital, repair and tenant improvement projects in government-owned facilities. The three service areas are:

- Property Operations and Land Management
- Client Service
- Project Management



Corporate Services

Several services are provided to support ORC in its management of the province's real estate assets. These are:

- Legal Services
- Corporate Relations
- Human Resources
- Financial Services
- Procurement
- Internal Audit
- Information Technology

SOME 2004-2005 BUSINESS UNIT HIGHLIGHTS

On behalf of its clients, ORC managed almost 900 projects worth over \$151 million last year.



Construction Project Management

This department manages major construction, repair and alteration projects funded by individual provincial ministries and agencies. On behalf of its clients, ORC managed almost 900 projects worth over \$151 million last year.

Court Projects

Construction or renovation of courthouses in Brockville and Orangeville

Extensive renovations, building retrofit, and heritage building conservation at Osgoode Hall

Exterior envelope and landscape upgrades for the courthouse at 361 University Avenue in Toronto

Design and tender of a new courthouse in Pembroke

Planning and development of Durham Courthouse

Courthouse upgrades and renovations in Toronto (47 Sheppard Ave., 2201 Finch Ave., and 1911 Eglinton Ave.), Newmarket, and Kitchener

Police & Correctional Facilities Projects

Construction of correctional facilities in Ottawa Carleton

Construction of the North Bay OPP Communications Centre

Construction of Trilcor Industry Building at Central East Correctional Centre, Lindsay

Other Projects

Expansion of Ministry of Health and Long Term Care facilities at 81 Resources Road, Toronto

Design of Rural Development Centre at Ridgetown College in Guelph

Repairs at Queen's Park Complex, Toronto

Restoration of the Whitney Block, Toronto

Upgrade life safety at Kingston Psychiatric Hospital

Upgrade and renovation to the Ontario Science Centre, Toronto

SOME 2004-2005 BUSINESS UNIT HIGHLIGHTS

Infrastructure Initiatives

Consistent with the Infrastructure Planning Financing and Procurement Framework, ORC developed the template for a project charter detailing roles and responsibilities for the provision of project management services for alternative financing and procurement projects.

Sales Plan

In executing the 2004-05 Sales Plan, ORC completed all due diligence requirements and exceeded the revenue target agreed to by MBS (\$16M) by achieving \$17.6M in actual sales.

Leasing

ORC completed 153 lease transactions in fiscal 2004-2005.

The Class Environmental Assessment (EA) and Environmental Management System (EMS)

The Class EA Process for MBS and ORC received the Minister of the Environment's Notice of Approval of Environmental Assessment on April 28, 2004. The Class EA officially came into effect in November 2004 after a six-month transition period.

An approved Class EA permits a group of projects in the defined class to proceed without the need for an assessment under Part II of the Environmental Assessment Act. The MBS Class EA, therefore, provides a streamlined version of a conventional EA. It is also a proactive planning tool designed to make sure MBS/ORC consistently takes into account the potential effects of its activities on the environment. The Class EA

considers natural, social, cultural, economic and built environments, and their interactions. We are continuing to review the EA process to ensure it remains viable while providing appropriate recognition and protection of assets.

ORC is in the process of developing a new Environmental Management System (EMS). The EMS incorporates principles of continuous environmental improvement and sustainability into ORC practices, and provides a framework to evaluate and manage any ORC product, service, or activity that may have a significant impact on the environment. ORC's EMS is consistent with international environmental standards and involves setting environmental objectives and targets.

Winning Recognition

ORC, in conjunction with its service provider – SNC-Lavalin ProFac Inc. (ProFac), continued to provide excellent facility management services and were honoured with several Building Owners and Managers Association (BOMA) awards, including a *Certificate of Environmental Excellence*, for the A.Grenville & William Davis Courthouse in Brampton.



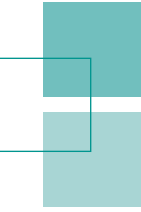
SOME 2004-2005 BUSINESS UNIT HIGHLIGHTS

Through partnership with SNC-Lavalin ProFac, the ORC has won 11 awards from the Building Owners and Managers Association (BOMA) since 2002.

The two also received a BOMA Canada Award for the John Sopinka Courthouse in Hamilton. The renovated former post office advanced to the national BOMA competition after being named Building of the Year by BOMA's Toronto chapter in 2004.

This is not the first time ORC and ProFac have been recognized for their environmental and energy management efforts. The two received the *Earth Award* from BOMA for the MTO General Headquarters facility in St. Catharines for environmental consciousness and energy management in 2003. Through its partnership with SNC-Lavalin ProFac, ORC has won 11 awards from the Building Owners and Managers Association since 2002.





ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)

For the year ended
MARCH 31, 2005



RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 8, 2005.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

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

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

On behalf of Management:



Peter Oakes
Chief Financial Officer & Treasurer
June 8, 2005

Office of the
Auditor General
of Ontario



Bureau du
vérificateur général
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15^e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Ontario Realty Corporation,
Chair of the Management Board of Cabinet,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2005 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 8, 2005

A handwritten signature in black ink, appearing to read 'G. Peall'.

Gary R. Peall, CA
Deputy Auditor general

BALANCE SHEET

Ontario Realty Corporation

(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

As at March 31	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 31,874	\$ 33,600
Accounts receivable (note 7c)	4,462	2,703
Prepaid expenses	334	301
Future Recoveries from Management Board Secretariat (note 2)	564	770
	37,234	37,374
Capital assets (note 3)	6,673	4,349
Funds held in trust (note 4)	153,118	128,866
	\$ 197,025	\$ 170,589
Liabilities and Retained Earnings		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,530	\$ 8,156
Provision for severance costs (note 2)	1,556	3,202
Deferred revenue (note 1a)	1,066	1,066
Current portion of capital lease obligations	—	533
	12,152	12,957
Capital lease obligations	—	254
Funds held in trust (note 4)	153,118	128,866
Retained Earnings	31,755	28,512
	\$ 197,025	\$ 170,589

Commitments (note 5)

Contingencies (note 6)


See Notes to Financial Statements

On behalf of the Board:

Director:



Director:



STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Ontario Realty Corporation
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Year Ended March 31	2005	2004
Revenues		
Management fees (note 7a)	\$ 33,911	\$ 31,482
Expense reimbursement – in lieu of fees (note 7a)	10,985	13,938
Direct recoverable costs (note 7a)	3,353	7,315
Bank interest and other income	778	692
	\$ 49,027	\$ 53,427
Expenses		
Salaries and benefits (note 2)	\$ 27,242	\$ 29,914
Direct operating expenses	15,468	14,236
Depreciation	3,049	1,964
Interest on capital lease obligations	25	50
	\$ 45,784	\$ 46,164
Excess of Revenues Over Expenses Before Severance Costs	3,243	7,263
Provision for severance costs (note 2)	6	930
Recoverable from Management Board Secretariat (note 2)	(6)	(930)
Excess of Revenues Over Expenses	\$ 3,243	\$ 7,263
Retained Earnings, Beginning of Year	28,512	21,249
Retained Earnings, End of Year	\$ 31,755	\$ 28,512

See Notes to Financial Statements

STATEMENT OF CASH FLOWS

Ontario Realty Corporation

(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Year Ended March 31	2005	2004
Cash Flows From Operating Activities:		
Excess of revenues over expenses	\$ 3,243	\$ 7,263
Adjustments for:		
Depreciation	3,049	1,964
Provision for severance costs (note 2)	35	1,836
Recoverable from Management Board Secretariat (note 2)	6	930
	6,333	11,993
Changes in non cash working capital		
Decrease (increase) in accounts receivable	(1,759)	11,008
Decrease (increase) in prepaid expenses	(33)	142
Increase (decrease) in accounts payable and accrued liabilities	1,374	(168)
	5,915	22,975
Cash Flow From Investing Activities:		
Purchase of capital assets (note 3)	(5,373)	(3,868)
Cash Flows From Financing Activities:		
Severance payments made during year (note 2)	(1,681)	(634)
Severance recoveries from Management Board Secretariat during year (note 2)	200	300
Repayment of capital lease obligations	(787)	(582)
	(2,268)	(916)
Net (decrease) increase in cash and cash equivalents	(1,726)	18,191
Cash and cash equivalents, beginning of year	33,600	15,409
Cash and cash equivalents, end of year	\$ 31,874	\$ 33,600

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Ontario Realty Corporation
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Year ended March 31, 2005

Nature of the Corporation

The Ontario Realty Corporation (the Corporation) was established under the *Capital Investment Plan Act 1993* (the Act) as a Crown Corporation of the Province of Ontario (the Province). As a Crown Corporation and service organization of the Province the Corporation is exempt from income taxes.

The Corporation provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 51.4 million rentable square feet: 42.8 million owned by the Province and 8.6 million leased from the private sector, as well as 90 thousand acres of land owned by the Province. The Corporation also provides property management services to the City of Greater Sudbury for one property.

1. Summary of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Revenue

Fees, expense reimbursement and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred. Funds provided by Management Board Secretariat ("MBS") for future severances are deferred and recognized as other income in the year in which the related expenses are incurred.

b) Cash and cash equivalents

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

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions relating to revenues and expenses which affect the reported amounts of assets, liabilities and related disclosures as of the date of the financial statements. Actual amounts could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS

Ontario Realty Corporation

(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

d) Capital Assets

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

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

e) Employee Pension Plans

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

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

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

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

2. Severance Costs

Included in the Provision for severance costs on the balance sheet are the following:

Recoverable Severance

The recoverable severance provision relates to staff severance costs associated with the Corporation's re-organization in 1999 and the contracting out of its property management services, which resulted from MBS approving a new governance structure for the Corporation. These severance costs are recovered from MBS. The severance provision remaining at March 31, 2005 relates to employees on long-term disability.

NOTES TO FINANCIAL STATEMENTS

Ontario Realty Corporation
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Corporate Realignment

During the 2003/04 fiscal year, the Corporation approved a new organizational structure for its portfolio management activities in order to improve services to its clients. This realignment is expected to be completed in the 2005/06 fiscal year.

As of March 31, 2005, total expected severance costs associated with the realignment were \$2,807 of which \$1,815 had been incurred. During the year ended March 31, 2005, the provision was increased by \$41 to reflect the Corporation's revised estimate of total severance costs and is included in salaries and benefits in the Statement of Operations and Retained Earnings.

The changes in the provision for severance costs are as follows:

March 31	2005			2004		
	Recoverable Severance	Corporate Realignment	Total	Recoverable Severance	Corporate Realignment	Total
Balance – beginning of year	\$ 770	\$ 2,432	\$ 3,202	\$ 2,000	\$ 0	\$ 2,000
Increase (Decrease) of provision	(6)	41	35	(930)	2,766	1,836
Severance payments	(200)	(1,481)	(1,681)	(300)	(334)	(634)
Balance – end of year	\$ 564	\$ 992	\$ 1,556	\$ 770	\$ 2,432	\$ 3,202

NOTES TO FINANCIAL STATEMENTS

Ontario Realty Corporation

(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

3. Capital Assets

Capital assets consist of the following:

March 31			2005	2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer hardware and software	\$ 4,994	\$ 4,035	\$ 959	\$ 235
Computer hardware and software under capital lease	–	–	–	689
Custom software	6,536	2,348	4,188	3,328
Furniture, fixtures and office equipment	706	274	432	27
Leasehold improvements	2,224	1,130	1,094	70
	\$ 14,460	\$ 7,787	\$ 6,673	\$ 4,349

During the year ended March 31, 2005, capital assets were acquired at an aggregate cost of \$5,373 (2004 – \$3,868 was purchased directly and \$478 was acquired by means of capital leases).

Certain capital assets are not reflected in the financial statements as they are provided at no charge to the Corporation by MBS.

4. Funds Held in Trust

The Corporation maintains several operating bank accounts and one short-term investment account, which it holds “in trust” and administers on behalf of MBS and the City of Greater Sudbury. They relate directly to the operation of several MBS owned and leased properties, or services provided to other ministries or agencies of the Province, as well as to the operation of one City of Greater Sudbury owned property. The portion of funds held in trust for MBS is \$151,759 (2004 – \$128,153).

Services supplied by third party contractors are funded through these accounts. Irregularities were uncovered at two service providers and losses sustained are recoverable pursuant to the indemnification by the service providers to the government under the terms of their contracts and as confirmed with both providers.

NOTES TO FINANCIAL STATEMENTS

Ontario Realty Corporation
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

5. Commitments

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

For the year ending March 31

2006	\$ 1,539
2007	1,492
2008	1,440
2009	1,410
2010	1,410
	<hr/>
	\$ 7,291

6. Contingencies

The Corporation is acting as an agent of the Ontario Government. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government.

7. Related Party Transactions

In the course of normal operations, the Corporation entered into transactions with the Province of Ontario, as follows:

- a) The Corporation is economically dependant on the Province as all of the revenues received from the Province for the provision of services are under the control of the Minister/Chair of Management Board of Cabinet.

The Corporation's prime sources of revenue are:

- i. Management Fees

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

- ii. Expense Reimbursement – In Lieu of Fees

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



NOTES TO FINANCIAL STATEMENTS

iii. Direct Recoverable Costs

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

- b) The *Capital Investment Plan Act* requires that any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments. No such instructions have been received from the Minister of Finance.
- c) The Corporation's accounts receivable include \$4,295 (2004 - \$2,589) from MBS and other Ministries.
- d) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pensionable service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by MBS and is not included in the Statement of Operations and Retained Earnings.
- e) As a result of the Corporation's relationship with the Province, the following related party transactions also exist and have been disclosed in the following notes to the financial statements.
- Summary of Significant Accounting Policies - Revenue (Note 1a)
 - Severance Costs (Note 2)
 - Capital Assets (Note 3)
 - Funds Held in Trust (Note 4)

8. Pension Plans

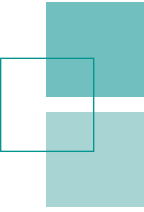
The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2005 were \$1,206 (2004—\$1,307) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

9. Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

10. Comparative Figures

Certain comparative amounts have been reclassified to conform with current year's presentation.



ORC's government-appointed Board of Directors is comprised of a group of individuals who bring to the organization a depth of private and public sector expertise in all areas of operations. It is their vision for the future, together with the strong leadership of ORC's senior management team, that has helped ORC to implement successful partnerships with the private sector through formal, public Request for Proposal processes and to institute recognized private sector business practices into its operations. The aggregate remuneration for members of the Board of Directors for the 2004-2005 fiscal year was \$34,654.

Michael Fenn

*June 21, 2003 – June 20, 2006**

April 28, 2004 – June 30, 2005 (Acting Chair)

Michael A. Barker

*February 16, 2003 – February 15, 2006 **

David Conn

November 17, 2004 – November 16, 2007

John J. Fogolin

*December 20, 2001 – December 19, 2004 **

Carol Gray

January 13, 2005 – January 12, 2008

(Appointed Chair June 2005)

Geoff Hare

March 24, 2004 – March 23, 2007

Malcolm L. Heins

*September 26, 2004 – July 30, 2005 **

Richard H. Ling

*September 26, 2004 – September 25, 2006**

R.G. (Ron) McNeill

December 4, 2002 – December 3, 2005

N.W. Bud Purves

January 13, 2005 – January 12, 2008



*Subsequent appointment

CONTACTS

Senior Management

Tony Miele	President and Chief Executive Officer
Brad Searchfield	Executive Vice-President, Portfolio Strategy & Asset Management
Michael Miceli	Senior Vice-President, Property Management & Client Service
Peter Oakes	Chief Financial Officer and Treasurer
MaryLee Farrugia	Executive Vice-President, General Counsel & Corporate Secretary
Kathy Bull	Senior Vice-President, Human Resources
Tobin Lambie	Senior Vice-President, Corporate Relations
Greg Dadd	Senior Vice-President, Strategic Planning and Policy

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