Ontario Infrastructure and
Lands Corporation

Financial Results

FOR THE YEAR ENDED MARCH 31, 2023

Infrastructure
Ontario

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 five lines of business delivering results to public sector clients.

Project Delivery manages large, complex public infrastructure projects using a variety of contracting models, most notably the public-private partnership (P3) approach to procurement and delivery. The P3 model leverages private sector financing and expertise in building public infrastructure with the objective of delivering projects on schedule and on budget.

Real Estate provides comprehensive property 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 maximize the value of government assets through portfolio planning and rationalization.

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.

Development is responsible for the delivery of Transit Oriented Communities: higher density, mixed-use development connected, adjacent to, or within a short walk of transit stations that is intended to catalyze new transit-centric communities. The redevelopment of transit station and construction lands on four priority subway projects within the Greater Toronto Area will create value for the Province that can be redeployed to offset transit infrastructure costs or fund other government priorities. This business line also provides advice and negotiation support to the government and public sector partners regarding major land developments.

Commercial Projects leverages private sector partnerships and investments to provide advice on opportunities for revenue generation, liability/cost reduction and efficiency in government services and investments. The business line also provides advice and negotiation support to the government and public sector partners regarding commercial transactions.

IO's business lines are supported by professional staff in finance, human resources, legal services, procurement and project management, communications, transaction finance, treasury, information technology, risk management and internal audit.

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, 2023 and should be read in conjunction with the financial statements for the year ended March 31, 2023 and related notes.

Management's Discussion and Analysis

IO earned a surplus of $23.4 million for the year, $6.4 million higher than budget primarily due to higher income in our Lending business, largely from $3.5 million in higher net interest margin (NIM) resulting from the impact of higher interest rates and treasury management initiatives and $2.1 million in higher than planned early loan repayment fees and $0.8 million related to the net impact of lower operating expenses.

OPERATING RESULTS

The MD&A discusses revenues and expenses for the five lines of business (refer to Note 20 of the financial statements) compared to budget, in accordance with how performance is measured.

PROJECT DELIVERY

Project Delivery provides professional services for P3 and other large infrastructure projects under either fixed price or cost recovery-based contracts. Revenue is recognized on fixed price contracts prior to reaching financial close when an arrangement is in place, costs are incurred, and collectability 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. Revenue is recognized on cost recovery-based contracts when an arrangement is in place, costs are incurred, and collectability is reasonably assured.

YEAR-ENDED MARCH 31, 2023 VS. BUDGET

Project Delivery reported a surplus of $nil for the year, $0.2 million below budget.

Revenues

- Project delivery fees were $68.0 million for the year, $7.0 million below budget. As the majority of projects are costs recovery, the lower revenue is the result of lower salary and general and administration costs incurred during the period, providing an offsetting favourable expense variance as explained below.
- Project transaction and recoverable costs revenues were $63.7 million for the year, $15.5 million below budget. Lower revenues reflect the recovery of lower project transaction and recoverable costs as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $52.4 million for the year, $1.7 million below budget, with savings primarily from lower headcount than budget.
- General and administration expenses were $15.6 million for the year, $5.1 million below budget. The favourable variance was primarily due to lower corporate expenses including consulting and information technology.
- Project transaction and recoverable costs were $63.7 million for the year, $15.5 million below budget, primarily due to lower spending on projects including OPP Modernization Phase 2 and MacDonald Block Reconstruction.

Project transaction costs are costs related to external advisors that are incurred to support the procurement of the construction consortium for P3 projects. Other recoverable costs are comprised of external advisor costs incurred to support a project and the development of an asset; these costs can vary depending on the nature and stage of the project. Neither transaction nor other recoverable costs are paid to Project Co.

YEAR-ENDED MARCH 31, 2023 VS. MARCH 31, 2022

Project Delivery reported a surplus of $nil for the year, $2.4 million below prior year primarily due to the recognition of revenues that were previously deferred and reversal of loss provisions in the prior year.

Revenues

- Project delivery fees were $68.0 million for the year, $4.6 million higher than prior year. The increase in revenue was primarily due to the recovery of $6.4 million in higher operating expenses (salary and benefit, and general administration), partially offset by a $2.0 million reduction in revenue related to the recognition of revenues that were previously deferred and reversal of loss provisions, both in the prior year.
- Project transaction and recoverable costs revenues were $63.7 million for the year, $3.7 million higher than the prior year. Higher revenues reflect the recovery of higher project transaction and recoverable costs as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $52.4 million for the year, $6.7 million above prior year due to increased headcount to support program growth.
- General and administration expenses were $15.6 million for the year, $0.3 million below prior year, primarily due to higher consulting in the prior year including support for project controls.
- Project transaction and recoverable costs were $63.7 million for the year, $4.2 million above prior year, primarily due to higher costs for Ontario Place projects, slightly offset by lower costs on Fort William Historical Park.

REAL ESTATE

Real Estate revenues are comprised of management fees, project transaction and recoverable costs revenue and other income. Management fees are earned to recover IO's costs to provide asset management services, facility management oversight and other realty services, including real estate options analysis, leasehold asset management planning (LAMP) services, and management of the hydro corridor program to both the General Real Estate Portfolio (GREP) and corporate realty clients. IO recovers external costs incurred to provide these other realty services to corporate realty clients through project transaction and recoverable costs revenue.

YEAR-ENDED MARCH 31, 2023 VS. BUDGET

Real Estate reported a surplus of $nil for the year, consistent with budget.

Revenues

- Management fees were $60.5 million for the year, $2.3 million below budget primarily due to the recovery of lower operating expenses (salary and benefit, and general administration) which were $2.2 million lower than budget as explained below, with no net impact to surplus.

- Project transaction and recoverable costs revenues were $22.2 million for the year, $16.0 million above budget. Project transaction and recoverable costs revenue relates to third party project advisor costs. Higher revenues reflect the recovery of higher expenses as explained below, with no net impact to surplus.
- Other income was $0.5 million for the year, $0.2 million above budget and consists of lease commission rebates from CB Richard Ellis (CBRE) reflecting 50% of the net brokerage commission earned in executing third party lease agreements at IO's direction to accommodate government tenants.

Expenses

- Salary and benefit expenses were $39.8 million for the year, $0.1 million above budget.
- General and administration expenses were $11.2 million for the year, $2.3 million below budget due to lower corporate expenses for consulting, and information technology, including lower costs to support the transition to a new outsourced delivery model.
- Project transaction and recoverable costs were $22.2 million for the year, $16.0 million above budget, primarily due to spend on two Corporate Realty projects: St. Lawrence Parks Commission $7.0 million and WSIB $3.5 million.
- Sub-contracting fees are paid to CBRE to provide operational facility management services to GREP. Sub-contracting fees were $10.0 million for the year, $0.1 million above budget.

YEAR-ENDED MARCH 31, 2023 VS. MARCH 31, 2022

Real Estate reported a surplus of $nil for the year, consistent with prior year.

Revenues

- Management fees were $60.5 million for the year, $3.3 million above prior year, primarily due to the recovery of higher operating expenses of $3.3 million.
- Other income was $0.5 million for the year, $0.4 million above prior year due to higher lease commission rebates mainly due to an increase in leases executed during the year.
- Project transaction and recoverable costs revenues were $22.2 million for the year, $4.9 million above prior year. Higher revenues reflect the recovery of higher expenses as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $39.8 million for the year, $3.3 million above prior year primarily due to higher headcount.
- General and administration expenses were $11.2 million for the year, $0.1 million below prior year, primarily due to higher consulting costs in the prior year for outsourced delivery model support.
- Sub-contracting fees paid to CBRE were $10.0 million for the year, $0.5 million above prior year, primarily due to annual increase for consumer price index (CPI).
- Project transaction and recoverable costs were $22.2 million for the year, $4.9 million above prior year, primarily due to external advisors required to support projects for the St. Lawrence Parks Commission.

Management's Discussion and Analysis

LENDING

YEAR-ENDED MARCH 31, 2023 VS. BUDGET

Lending reported a surplus of $23.5 million for the year, $6.7 million above budget.

Net interest margin for the year was $28.7 million, $3.5 million above budget primarily due to the net impact of higher interest rates $2.6 million, which resulted in lower swap costs and increased yields on cash balances and short-term investments, partially offset by higher costs on floating rate debt, and treasury management initiatives $2.2 million, partially offset by lower loan volumes $1.3 million.

($ millions)		Actual	Budget	Variance
Interest revenue	$	**241.8**	222.7	19.1
Interest expense		**(213.1)**	(197.5)	(15.6)
NIM	$	**28.7**	25.2	3.5

Other income for the year was $2.8 million, $2.1 million above budget primarily due to make-whole payments associated with loan repayments from five borrowers during the period.

Expenses

- Salary and benefit expenses were $6.0 million for the year, $0.3 million below budget due to lower headcount than budget.
- General and administration expenses were $1.9 million for the year, $0.9 million below budget primarily due to lower corporate expenses including consulting and information technology.

YEAR-ENDED MARCH 31, 2023 VS. MARCH 31, 2022

Lending reported a surplus of $23.5 million for the year, $6.5 million higher than prior year.

NIM was $28.7 million, $4.6 million higher than the prior year primarily due to the net impact of higher interest rates $4.6 million, which resulted in lower swap costs and increased yields on cash balances and short-term investments, partially offset by higher costs on floating rate debt.

($ millions)		March 31, 2023	March 31, 2022	Variance
Interest revenue	$	**241.8**	223.0	18.8
Interest expense		**(213.1)**	(198.9)	(14.2)
NIM	$	**28.7**	24.1	4.6

Other income for the year was $2.8 million, $2.2 million higher than the prior year, due to higher make-whole payments associated with five borrowers in the current year.

Expenses

- Salary and benefit expenses were $6.0 million for the year, $0.3 million higher than the prior year, primarily due to increased headcount to support business growth.
- General and administration expenses were $1.9 million for the year, consistent with prior year.

Management's Discussion and Analysis

DEVELOPMENT

Development provides professional services on a cost recovery basis. Revenues for project delivery fees, and project transaction and recoverable costs, are recorded when an arrangement is in place, costs are incurred, and collectability is reasonably assured.

YEAR-ENDED MARCH 31, 2023 VS. BUDGET

Development reported a surplus of $0.2 million for the year, $0.2 million above budget.

Revenues

- Project delivery fees were $12.0 million for the year, $0.3 million below budget, primarily due to recovery of lower of operating expenses which were $0.5 million lower than budget as explained below, with no net impact to surplus.
- Project transaction and recoverable costs revenues were $11.2 million for the year, $2.1 million above budget. Project transaction and recoverable costs revenues relate to third party advisor costs. Higher revenues reflect the recovery of higher expenses as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $10.3 million for the year, $0.2 million above budget primarily due to timing of headcount growth.
- General and administration expenses were $1.5 million for the year, $0.7 million below budget due to lower corporate expenses including consulting and information technology.
- Project transaction and recoverable costs were $11.2 million for the year, $2.1 million above budget, primarily due to $7.0 million higher spend for the Ontario Place Development project, partially offset by $4.0 million lower spend for the Ontario Line project.

YEAR-ENDED MARCH 31, 2023 VS. MARCH 31, 2022

Development reported a surplus of $0.2 million for the year, $0.4 million below prior year.

Revenues

- Project delivery fees were $12.0 million for the year, $6.6 million above prior year, primarily due to the transition of certain projects and staff supporting Commercial Projects to Development, including the Ontario Place Development and LTC Surplus Lands projects.
- Project transaction and recoverable costs revenues were $11.2 million for the year, $8.8 million above prior year. Higher revenues reflect the recovery of higher expenses as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $10.3 million for the year, $6.4 million above prior year, primarily due to the transition of certain staff from Commercial Projects.
- General and administration expenses were $1.5 million for the year, $0.7 million above prior year due to refinement of costs allocations due to the transition from Commercial Projects.

Management's Discussion and Analysis

- Project transaction and recoverable costs were $11.2 million for the year, $8.8 million above prior year, primarily due to the transition of certain projects from Commercial Projects, including the Ontario Place Development and LTC Surplus Lands projects.

COMMERCIAL PROJECTS

Commercial Projects provides professional services on a cost recovery basis. Revenues for project delivery fees, and project transaction and recoverable costs, are recorded when an arrangement is in place, costs are incurred, and collectability is reasonably assured.

YEAR-ENDED MARCH 31, 2023 VS. BUDGET

Commercial Projects reported a deficit of $0.3 million for the year, $0.3 million below budget.

Revenues

- Project delivery fees were $9.7 million for the year, $1.9 million below budget primarily due to lower revenues on certain projects including the Ministry of Health Program Delivery Modernization and PRESTO, where delays were experienced in finalizing letters of agreement or scope of work was reduced.
- Project transaction and recoverable costs revenues were $19.9 million for the year, $12.7 million above budget. Project transaction and recoverable costs revenues relate to third party advisor costs. Higher revenues reflect the recovery of higher expenses as explained below, with no net impact to surplus.

Expenses

- Salary and benefit expenses were $8.6 million for the year, $0.7 million below budget, primarily due to lower headcount than budget.
- General and administration expenses were $1.5 million for the year, $0.9 million below budget, primarily due to lower corporate expenses including consulting and information technology.
- Project transaction and recoverable costs were $19.9 million for the year, $12.7 million above budget, primarily due to $12.6 million higher spend on Broadband as the scope of project support has expanded beyond what was assumed in the budget.

YEAR-ENDED MARCH 31, 2023 VS. MARCH 31, 2022

Commercial Projects reported a deficit of $0.3 million for the year, $1.3 million below prior year.

Revenues

- Project delivery fees were $9.7 million for the year, $2.2 million below prior year, primarily due to the transition of certain projects and staff to Development, including the Ontario Place Development and LTC Surplus Lands projects.
- Project transaction and recoverable costs revenues were $19.9 million for the year, $3.3 million below prior year, primarily due to the transition of certain projects to Development, including the Ontario Place Development and LTC Surplus Lands projects, partially offset by higher spend on the Broadband project.

Management's Discussion and Analysis

Expenses

- Salary and benefit expenses were $8.6 million for the year, $0.4 million below prior year, primarily due to the transition of certain staff to Development.
- General and administration expenses were $1.5 million for the year, $0.5 million below prior year, primarily from the refinement of costs allocations due to the transition of certain staff to Development.
- Project transaction and recoverable costs were $19.9 million for the year, $3.3 million below prior year as explained above.

STATEMENT OF FINANCIAL POSITION

Cash

At March 31, 2023, the cash balance was $415.1 million, a decrease of $240.6 million from the March 31, 2022 balance of $655.7 million. The decrease was primarily due to $169.0 million in net debt payments in the lending portfolio, $40.0 million invested into Guaranteed Investment Certificates (GICs) in line with IO's Treasury management strategy to leverage excess liquidity in order to optimize surplus, and $10.0 million in net loans issued.

Restricted Cash and Liabilities Held in Trust

At March 31, 2023, restricted cash and liabilities held in trust were $108.0 million, an increase of $23.4 million from the March 31, 2022 balance of $84.6 million. The increase was primarily due to $23.6 million net funding for the MacDonald Block Reconstruction project.

Accounts Receivable

At March 31, 2023, accounts receivable was $66.8 million, an increase of $29.0 million from the March 31, 2022 balance of $37.8 million. Accounts receivable over 90 days totaled $27.9 million, including $15.0 million from the Ministry of Health, $5.2 million from Metrolinx, and $3.9 million from the Ministry of Transportation. As of April 30, 2023, $3.8 million (or 14%) of the $27.9 million has been collected.

Short-term Investments

IO purchased three GICs totaling $190.0 million in June 2022 using existing cash. The GICs are highly liquid instruments. IO liquidated one GIC for $110.0 million in September and another GIC for $40.0 million in March as interest rates earned on cash exceeded the GIC rate due to the rapid increase in interest rates, leaving one GIC remaining for $40.0 million maturing in June 2023.

Loans Receivable and Debt – Loan Program

At March 31, 2023, loans receivable was $6,184.3 million, an increase of $11.1 million from $6,173.2 million at March 31, 2022 due to loan advances slightly exceeding loan repayments in the period.

Management's Discussion and Analysis

During the year, IO executed the following transactions to fund new loans and repay existing debt:

- Borrowed $640.2 million on the long-term non-revolving credit facility with the Province to fund back-to-back loans.
- Repaid $469.4 million of long-term non-revolving debt to the Province.
- Repaid $300.0 million of Ontario Infrastructure and Lands Corporation bonds to the Province.
- Repaid $40.0 million on the short-term revolving credit facility with the Province.

Loan Valuation Allowance

The loan valuation allowance is comprised of general and specific valuation provisions.

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 $26.7 million as at March 31, 2023, consistent with the balance at March 31, 2022.

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, 2023, consistent with the balance at March 31, 2022.

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.

At March 31, 2023, the net derivative asset was $69.8 million, a $22.2 million increase in the fair value from the $47.6 million reported at March 31, 2022. This increase is primarily due to the impact of higher interest rates and a reduction in the notional balances in the period.

Projects Receivable

At March 31, 2023, projects receivable was $85.0 million, an increase of $12.6 million compared to $72.4 million at March 31, 2022. The balance is made up of revenues earned which have not yet been invoiced to clients and includes project delivery fees, and project transaction and recoverable costs revenues.

Accrued Liabilities

At March 31, 2023, accrued liabilities were $40.2 million, an increase of $2.3 million from the March 31, 2022 balance of $37.9 million. The balance includes $24.5 million for project related advisory costs and $15.7 million for operating expenses including salaries/benefits, accrued vacation, and other expenses.

Management's Discussion and Analysis

Deferred Revenue

Based on agreements with certain clients, IO invoices and recovers project costs based on periodic payment schedules. 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, 2023, deferred revenue was $40.1 million, a decrease of $1.9 million from the March 31, 2022 balance of $42.0 million due to the timing of invoicing on certain projects relative to revenues earned to date. The majority of the deferred revenue is related to P3 projects.

Capital – Loan Program and Liquidity Reserve

IO has a $400.0 million liquidity reserve funded by its capital loan program, comprised of $280.0 million subordinated 50-year loan from the Province of Ontario (Province) and a $120.0 million subordinated 10- year loan from the Ontario Clean Water Agency (refer to Note 10 of the financial statements). These funds are held in cash ($201.2 million) and long-term investments ($198.8 million), and provide credit protection to holders of senior debt such as Infrastructure Renewal Bonds, and a liquidity backstop for Infrastructure Ontario's financing needs.

Financial Statements

FOR THE YEAR ENDED MARCH 31, 2023

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Infrastructure Ontario

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, 2023 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, 2023;
- 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 significant accounting policies and other explanatory information.

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.

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management's Discussion and Analysis.

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Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 23, 2023

Responsibility for Financial Reporting

The accompanying financial statements of Ontario Infrastructure and Lands Corporation have been prepared in accordance with Canadian Public Sector Accounting Standards established by the Public Sector Accounting 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 and Risk Committee. The Audit and Risk 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,

Michael Lindsay
President and Chief Executive Officer

Priyal Thakrar
Chief Financial Officer and Executive Vice President, Lending and Technology

Statement of Financial Position

As at March 31 (in thousands of dollars)

	March 31 2023	March 31 2022
Financial assets		
Cash	$ 415,081	$ 655,662
Restricted cash (Note 2 & 19)	107,999	84,600
Accounts receivable (Note 3)	66,838	37,766
Interest receivable	44,160	42,768
Investment income receivable	3,024	2,109
Short-term investments (Note 4)	40,000	-
Loans receivable (Note 5)	6,184,305	6,173,209
Derivatives (Note 6)	69,776	47,641
Projects receivable (Note 7)	85,040	72,385
Long-term investments (Note 8)	200,298	201,579
	7,216,521	7,317,719
Liabilities		
Accounts payable	13,834	8,229
Accrued liabilities	40,197	37,892
Liabilities held in trust (Note 2 & 19)	107,999	84,600
Interest payable	41,163	39,707
Deferred revenue	40,060	42,005
Debt - loan program (Note 10)	6,222,185	6,391,065
Capital - loan program (Note 10)	399,681	399,681
	6,865,119	7,003,179
Net financial assets	351,402	314,540
Non-financial assets		
Prepaid expenses	3,815	2,253
Tangible capital assets (Note 11)	17,835	10,731
	373,052	327,524
Accumulated surplus	303,276	279,883
Accumulated remeasurement gains (Note 6)	69,776	47,641
	$ 373,052	$ 327,524

Contingencies (Note 17)

Commitments (Note 18)

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

Approved

Board Chair

Director, Chair Audit & Risk Committee

Statement of Operations and Accumulated Surplus

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

	2023 Budget	2023	2022
Revenues			
Interest revenue (Note 12)	$ 222,670	**$ 241,821**	$ 223,013
Project delivery fees (Note 14)	98,904	**89,707**	80,655
Management fees - GREP (Note 14)	57,224	**55,079**	51,367
Management fees - Corporate Realty (Note 14)	5,565	**5,404**	5,776
Project transaction and recoverable costs (Note 14)	101,724	**117,030**	103,038
Other income	1,040	**3,299**	663
	487,127	**512,340**	464,512
Expenses			
Salaries and benefits	119,413	**117,064**	100,672
General and administration (Note 13)	41,511	**31,675**	31,923
Interest expense (Note 12)	197,474	**213,163**	198,903
Project transaction and recoverable costs	101,724	**117,030**	102,497
Sub-contracting fees	9,960	**10,015**	9,524
	470,082	**488,947**	443,519
Surplus	17,045	**23,393**	20,993
Accumulated surplus, beginning of year	279,883	**279,883**	258,890
Accumulated surplus, end of year	$ 296,928	**$ 303,276**	$ 279,883

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)

	2023	2022
Accumulated remeasurement gains/(losses), beginning of year	$ **47,641**	$ (26,860)
Realized (gains)/losses - reclassified to the Statement of Operations	**(3,229)**	30,895
Remeasurement gains	**25,364**	43,606
Net remeasurement gains in the year	**22,135**	74,501
Accumulated remeasurement gains, end of year	$ **69,776**	$ 47,641

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)

		2023		2022
Surplus	$	**23,393**	$	20,993
Change in prepaid expenses		**(1,562)**		(646)
Acquisition of tangible capital assets		**(9,516)**		(2,567)
Amortization of tangible capital assets		**2,412**		2,284
Net remeasurement gains in the year		**22,135**		74,501
Net change in net financial assets		**36,862**		94,565
Net financial assets at beginning of year		**314,540**		219,975
Net financial assets at end of year	$	**351,402**	$	314,540

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)

	2023	2022
Operating activities		
Surplus	$ 23,393	$ 20,993
Items not requiring a current cash outlay:		
Amortization of loan concession costs	(2,963)	(3,497)
Amortization of tangible capital assets	2,412	2,284
Amortization of debt issue cost	358	474
Amortization of investment bond premium	1,281	772
	24,481	21,026
Changes in working capital items:		
(Increase)/decrease in restricted cash	(23,399)	13,697
(Increase)/decrease in accounts receivable	(29,072)	60,991
(Increase)/decrease in interest receivable	(1,392)	1,200
Increase in investment income receivable	(915)	(636)
Increase in short-term investments	(40,000)	-
(Increase)/decrease in projects receivable	(12,655)	2,119
Increase in prepaid expenses	(1,562)	(646)
Increase/(decrease) in accounts payable	5,605	(6,782)
Increase in accrued liabilities	2,305	3,517
Increase/(decrease) in liabilities held in trust	23,399	(13,697)
Increase/(decrease) in interest payable	1,456	(430)
Decrease in deferred revenue	(1,945)	(6,649)
Cash (used in)/provided by operating activities	(53,694)	73,710
Capital activities		
Acquisition of tangible capital assets	(9,516)	(2,567)
Cash used in capital activities	(9,516)	(2,567)
Investing activities		
Issuance of loans receivable	(503,310)	(422,054)
Proceeds from loan repayments	495,177	417,083
Purchase of long-term investments	-	(33,870)
Cash used in investing activities	(8,133)	(38,841)
Financing activities		
(Decrease)/increase in short term revolving credit facility	(40,000)	61,000
Proceeds from debt	640,228	378,743
Debt repayments	(769,466)	(251,771)
Cash (used in)/provided by financing activities	(169,238)	187,972
Net (decrease)/increase in cash	(240,581)	220,274
Cash, beginning of year	655,662	435,388
Cash, end of year	$ 415,081	$ 655,662

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

Cash interest paid and received (Note 12)

Notes to the Financial Statements

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

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:

- Provide advice and services on financial, strategic, or other matters involving the government;
- Carry out powers, duties and functions delegated by the Minister under the Ministry of Infrastructure Act, 2011 or the Building Broadband Faster Act, 2021;
- 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 advice and services related to government property, including project management, contract management and development;
- Provide financial management for government property held by the Ministry of Infrastructure (MOI), formerly the Ministry of Government and Consumer Services (MGCS) or by a Crown agency for which the Minister of Infrastructure is responsible;
- Provide advice and services related to real property to prescribed public sector organizations;
- Provide advice and services to non-Ontario entities related to development of public infrastructure loan programs; real property; financial strategic or other matters; and the implementation of transactions;
- Provide financing for infrastructure purposes to municipalities and to other eligible public organizations.

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.

Notes to the Financial Statements

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

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. Management has evaluated the potential impact of the pandemic on the fair value of derivatives as well as the credit risk of our borrowers, the latter impacting the development of the estimates of the portfolio loan valuation allowance and 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, short-term investments, loans receivable, derivatives, projects receivable, and long-term investments.

Infrastructure Ontario's financial liabilities include accounts payable, accrued liabilities, liabilities held in trust, interest payable, 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 as permitted by our agreement with our counterparty 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 5) 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.

Notes to the Financial Statements

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

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 and remain a component of net financial assets on the Statement of Financial Position.

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.

Notes to the Financial Statements

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

Funds held in Trust

The Agency is required to maintain trust funds for collection of property taxes and reserve funds as part of the CMHC certificate of insurance. In addition, certain borrowers set up trust funds as a requirement of the loan agreement. The Agency also maintains a project trust general ledger account for funds received from various ministries for purpose of payments to project construction consortiums and contract change orders. All of these amounts held in trust are recognized as restricted cash on the statement of financial position.

The Agency also maintains several operating bank accounts which it administers on behalf of MOI and related to the operations of MOI's general real estate portfolio. The Agency is the financial manager pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011 and these funds are therefore not recorded in these financial statements.

Short-term investments

Short-term investments include highly liquid instruments with a term to maturity exceeding three months but less than a year at the time of purchase.

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 interest income or interest expense as appropriate on 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 Infrastructure Ontario'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 to date under both cost based and fixed price contracts.

Employee Benefits

The Agency provides a defined contribution pension plan for certain full-time employees and also contributes to the Public Service Pension Plan, a multi-employer plan established by the Province of Ontario, for pension benefits for certain full-time employees. The Agency's obligation to the Public Service Pension Plan is based on formulas set by the Ontario Pension Board. The contributions made by the Agency to the defined contribution pension plan and multi-employer plans are expensed in the Statement of Operations on an accrual basis. The cost of post-retirement, non-pension employee benefits to employees for the multi-employer plan is paid by the Ministry of Public and Business Service Delivery (MPBSD, formerly MGCS) and is not included in the financial statements.

2. RESTRICTED CASH

Restricted cash includes funds held in trust for Infrastructure Ontario's lending clients of $9.3 million (2022 - $8.8 million) and project construction consortiums of $98.7 million (2022 - $75.8 million), detailed further in Note 19.

Notes to the Financial Statements

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

3. ACCOUNTS RECEIVABLE

($ thousands)		2023		2022
Net trade accounts receivable	$	62,870	$	32,566
HST receivable		3,968		5,200
	$	66,838	$	37,766

4. SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments carried at amortized cost. As at March 31, 2023, the interest rate on the investment is 5.51% with maturity in June 2023.

5. LOANS RECEIVABLE

($ thousands)		2023			2022	
Construction advances			Interest %			Interest %
Infrastructure renewal loan program	$	331,036	4.99-5.39	$	364,516	0.90-1.30
Debentures receivable						
Concessionary loan program						
Remaining terms to maturity:						
1 to 5 years		50,174	2.36-2.95		65,484	2.36-2.95
6 to 10 years		55,274	2.52-2.87		52,327	2.52-2.87
11 to 15 years		16,944	2.52-2.73		32,210	2.52-2.73
16 to 20 years		2,042	2.80-2.80		2,146	2.80-2.80
Greater than 20 years		9,559	2.63-3.05		9,851	2.63-3.05
		133,993			162,018	
Infrastructure renewal loan program						
Remaining terms to maturity:						
1 to 5 years		420,279	1.00-5.30		420,620	0.84-5.26
6 to 10 years		831,180	1.37-5.89		889,550	1.22-5.89
11 to 15 years		877,669	1.76-5.44		872,557	1.76-5.44
16 to 20 years		1,416,866	1.94-5.91		1,212,437	1.94-5.91
Greater than 20 years		2,214,643	1.97-5.60		2,295,835	1.97-5.60
		5,760,637			5,690,999	
Total		6,225,666			6,217,533	
Deferred costs on concessionary loans						
Deferred costs, beginning of year		(13,151)			(16,648)	
Amortization of concession costs		2,963			3,497	
Deferred costs, end of year		(10,188)			(13,151)	
Loan valuation allowance		(31,173)			(31,173)	
Loans receivable	$	6,184,305		$	6,173,209	

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 five 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, 2023, Infrastructure Ontario has a loan valuation allowance of $31.2 million (2022 - $31.2 million).

6. 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.

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, 2023, 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.

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

	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
Asset swap	$ 226,361	751,398	565,280	391,924	333,498	$ 2,268,461
Liability swap	$ 268,500	41,500	-	336,611	516,246	$ 1,162,857

Derivatives are recorded at fair value as at March 31, 2023 resulting in net derivative assets of $69.8 million and accumulated unrealized gains on the Statement of Remeasurement Gains and Losses of $69.8 million (2022 – net derivative assets of $47.6 million on the Statement of Financial Position and accumulated unrealized gains on the Statement of Remeasurement Gains and Losses of $47.6 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, 2023, all interest rate swap agreements are with the Province.

7. 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.

8. LONG-TERM INVESTMENTS

Long-term investments consist of bonds carried at amortized cost. As at March 31, 2023, the interest rates on these investments ranged from 2.30% to 3.50% (2022 – 2.30% to 3.50%) with maturities from September 2023 to September 2024.

9. 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 Project Delivery program. Advances are to be repaid within 3 months of the borrowing date, unless an extension is requested. The revolving credit facility expires March 27, 2028. As at March 31, 2023, the full balance of the facility remains undrawn.

Notes to the Financial Statements

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

10. DEBT AND CAPITAL – LOAN PROGRAM

All facilities are available exclusively for the lending program.

($ thousands)		2023			2022	
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		**335,000**	**4.54-4.66**		375,000	0.26-0.78
OIPC/OILC bonds		**1,055,000**	**3.07-4.96**		1,355,000	2.92-4.96
Long-term non-revolving credit facility						
Fixed		**3,610,049**	**0.90-4.87**		3,304,287	0.90-3.58
Floating Rate Notes (FRN)		**925,000**	**4.86-5.48**		1,060,000	1.39-1.71
		6,225,049			6,394,287	
Debt issue costs		**(2,864)**			(3,222)	
	$	**6,222,185**		$	6,391,065	
b) Capital - loan program						
Province of Ontario loan	$	**$279,681**	**4.46**	$	279,681	0.18
Ontario Clean Water Agency loan		**120,000**	**4.58**		120,000	0.69
	$	**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
2023-2024	$	1,332,637
2024-2025		661,445
2025-2026		822,516
2026-2027		369,372
2027-2028		327,681
Thereafter		5,598,632
	$	**9,112,283**

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.

Notes to the Financial Statements

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

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. The revolving credit facility with the Province is authorized to issue a maximum of $1.1 billion for terms ranging from three months to one year, with an expiry date of April 7, 2027. As at March 31, 2023, maturities ranged from April 2023 to June 2023, while interest on the notes ranged from 4.54% to 4.66% (2022 – 0.26% to 0.78%).

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, 2023, interest on fixed rate bonds ranged from 3.07% to 4.96% (2022 – 2.92% to 4.96%) per annum and maturities ranged from June 2023 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. Infrastructure Ontario was approved to borrow $4.0 billion from the Province for the purposes of funding the loan program with an expiry date of May 14, 2025. As at March 31, 2023, $3.4 billion of the facility is available and undrawn.

As at March 31, 2023, interest with fixed rates on the back to back loans ranged from 0.90% to 4.87% (2022 – 0.90% to 3.58%) and maturities ranged from April 2023 to February 2053. The FRNs bear interest from three month CDOR less 17 basis points to three month CDOR plus 45 basis points and the maturity of the notes ranged from June 2023 to June 2025. Interest is reset and paid quarterly until the maturity of the FRNs.

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, 2023, interest on the note was reset at 4.46% (2022 – 0.18%).

Ontario Clean Water Agency Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province, provided a 20 year subordinated loan of $120 million to Infrastructure Ontario secured by a promissory note due on March 1, 2023. The loan was renewed with a new term for 10 years maturing March 1, 2033. The interest rate on the note is reset quarterly at the Province's three month Treasury bill rate and payable quarterly. On March 1, 2023, interest on the note was reset at 4.58% (2022 – 0.69%).

Notes to the Financial Statements

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

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.

11. TANGIBLE CAPITAL ASSETS

($ thousands)	Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
	Year ended March 31, 2023				
Cost					
Balance, April 1, 2022	$ 21,493	$ 9,893	$ 2,630	$ 17,615	$ 51,631
Additions	921	8,595	-	-	9,516
Balance, March 31, 2023	22,414	18,488	2,630	17,615	61,147
Accumulated amortization					
Balance, April 1, 2022	20,589	5,951	2,252	12,108	40,900
Additions	692	876	65	779	2,412
Balance, March 31, 2023	21,281	6,827	2,317	12,887	43,312
Net book value - March 31, 2023	**$ 1,133**	**$ 11,661**	**$ 313**	**$ 4,728**	**$ 17,835**

($ thousands)	Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
	Year ended March 31, 2022				
Cost					
Balance, April 1, 2021	$ 20,052	$ 7,767	$ 2,630	$ 17,615	$ 49,064
Additions	441	2,126	-	-	2,567
Balance, March 31, 2022	21,493	9,893	2,630	17,615	51,631
Accumulated amortization					
Balance, April 1, 2021	19,918	5,193	2,187	11,318	38,616
Additions	671	758	65	790	2,284
Balance, March 31, 2022	20,589	5,951	2,252	12,108	40,900
Net book value - March 31, 2022	$ 904	$ 3,942	$ 378	$ 5,507	$ 10,731

Notes to the Financial Statements

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

12. INTEREST INCOME (EXPENSE)

($ thousands)		2023		2022
Interest revenue	$	**241,821**	$	223,013
Interest expense		**(213,163)**		(198,903)
Net interest margin	$	**28,658**	$	24,110

The breakdown of interest expense on debt is as follows:

Program funding				
Infrastructure Renewal Bonds	$	**(14,100)**	$	$(14,100)
Short-term revolving credit facility		**(9,041)**		(936)
OIPC/OILC Bonds		**(43,692)**		(51,832)
Long-term non-revolving credit facility		**(136,168)**		(98,965)
		(203,001)		(165,833)
Interest rate swap costs		**3,229**		(30,895)
Debt issue cost amortization		**(358)**		(474)
Investment bond premium amortization		**(1,281)**		(772)
		(201,411)		(197,974)
Capital funding				
Province of Ontario loan		**(7,848)**		(426)
Ontario Clean Water Agency loan		**(3,904)**		(503)
		(11,752)		(929)
Total interest expense	$	**(213,163)**	$	(198,903)

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

Cash interest received	$	**240,737**	$	220,213
Cash interest paid		**(210,070)**		(198,085)
		30,667		22,128
Non-cash interest				
Amortization of loan concession costs (Note 5)		**2,963**		3,497
Other non-cash interest		**(4,972)**		(1,515)
Net interest margin	$	**28,658**	$	24,110

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

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

13. GENERAL AND ADMINISTRATION EXPENSES

($ thousands)		2023 Budget		**2023**		2022
Information technology	$	15,618	$	**14,095**	$	8,850
Professional and consulting		17,305		**9,258**		14,785
Premises		4,481		**4,100**		4,775
Office and administration		1,441		**1,756**		1,155
Communications		166		**54**		74
Amortization		2,500		**2,412**		2,284
	$	41,511	$	**31,675**	$	31,923

14. 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, MOI, the Ministry of the Solicitor General and the Ministry of Transportation.

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 MOI's General Real Estate Portfolio (GREP) and the corporate realty portfolio.

Infrastructure Ontario has interest bearing investments (Note 8) and loans from the Province and OCWA (Note 10) and a line of credit with the OFA (Note 9).

15. 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, 2023 was $6.0 million (2022 – $5.1 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, 2023 (2022 – $0.3 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 MPBSD and is not included in the financial statements.

16. 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 Real Estate and Lending 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 monitored by the Real Estate and Lending 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 Real Estate and Lending 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 Real Estate and Lending 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, 2023 was $6,184.3 million (2022 - $6,173.2 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, 2023 is as follows:

Notes to the Financial Statements

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

($ thousands)	Outstanding	Loan Valuation Allowance [2]	2023	2022
Tier 1				
Municipalities	$ 4,085,753			
City of Toronto (as guarantor)	988,680			
Universities	125,000			
Local service boards	76			
Social housing (with municipal guarantee)	156,479			
Affordable housing (insured by CMHC)[1]	116,154			
Long term care (with municipal guarantee)	13,670			
Affordable housing (with municipal guarantee)	1,049			
Community health & social service hubs (with municipal guarantee)	5,755			
Sports & Recreation (with municipal guarantee)	65,291			
	5,557,907	**(39)**	**5,557,868**	5,340,699
Tier 2				
Local distribution corporations	162,086			
Long term care	118,680			
Affordable housing (not insured by CMHC)[1]	128,771			
Social housing	82,691			
Aboriginal health access centres	625			
Community health & social service hubs	16,691			
	509,544	**(6,187)**	**503,357**	655,017
Tier 3				
Power generators	46,418			
Municipal corporations (other)	26,306			
Beneficial entities (arts training, etc.)	75,347			
Sports and recreation	10,144			
	158,215	**(24,947)**	**133,268**	190,644
Deferred costs on concessionary loans				
Deferred costs, beginning of year	(13,151)			
Amortization of concession costs	2,963			
Deferred costs, end of year	**(10,188)**	**-**	**(10,188)**	(13,151)
Loans receivable	**$ 6,215,478**	**$ (31,173)**	**$ 6,184,305**	$ 6,173,209

[1] CMHC is defined as Canada Mortgage and Housing Corporation.

[2] Consists of $26.7 million for general loan valuation allowance and $4.5 million for specific loan valuation allowance.

Notes to the Financial Statements

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

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, short-term investments, derivatives and long-term investments

The maximum exposure to credit risk on the cash, restricted cash, receivables, short-term investments, derivatives and long-term investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2023 was:

($ thousands)	2023	Past Due >90 days
Cash	$ 415,081	$ -
Restricted cash	107,999	-
Accounts receivable	66,838	27,891
Interest receivable	44,160	-
Investment income receivable	3,024	-
Short-term investments	40,000	-
Derivatives	69,776	-
Projects receivable	85,040	-
Long-term investments	200,298	-
	$ 1,032,216	$ 27,891

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. Infrastructure Ontario only invests in authorized liquid assets prescribed by the approved Treasury policies and guidelines, which can be easily liquidated.

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

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, 2023 would have had a $1.7 million / ($1.7 million) impact on the surplus, and a $22.4 million / ($20.0 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, the Minister of Infrastructure and 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, 2023:

($ thousands)	Within 1 year	2 to 5 years	Over 5 years	Total
Accounts payable	$ 13,834	$ -	$ -	$ 13,834
Accrued liabilities	40,197	-	-	40,197
Liabilities held in trust	107,999	-	-	107,999
Interest payable	41,163	-	-	41,163
Debt and capital – principal and interest	1,332,637	2,181,014	5,598,632	9,112,283
Total financial liabilities	**$ 1,535,830**	**$ 2,181,014**	**$ 5,598,632**	**$ 9,315,476**

17. 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.

Notes to the Financial Statements

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

18. 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
2023-2024	$	3,869
2024-2025		4,066
2025-2026		4,163
2026-2027		4,237
2027-2028		4,314
Thereafter		1,100
	$	**21,749**

Infrastructure Ontario has $615.6 million of unadvanced loan commitments as at March 31, 2023.

19. 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, 2023, the funds under administration were $9.3 million (2022 – $8.8 million).

Infrastructure Ontario has a process 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, 2023, Infrastructure Ontario held $98.7 million (2022 – $75.8 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 MOI. These accounts relate directly to the operations of MOI'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 MOI as at March 31, 2023 were $188.7 million (2022 – $191.3 million) and are not recorded in these financial statements.

Notes to the Financial Statements

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

20. 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, 2023					
($ thousands)	Project Delivery	Real Estate	Lending	Development [1]	Commercial Projects	Total
Revenues						
Interest revenue	$ -	$ -	$ 241,821	$ -	$ -	$ 241,821
Project delivery fees	67,991	-	-	11,980	9,736	89,707
Management fees - GREP	-	55,079	-	-	-	55,079
Management fees - Corporate Realty	-	5,404	-	-	-	5,404
Project transaction and recoverable costs	63,696	22,243	-	11,164	19,927	117,030
Other income	-	534	2,765	-	-	3,299
	131,687	83,260	244,586	23,144	29,663	512,340
Expenses						
Salaries and benefits	52,427	39,759	5,989	10,290	8,599	117,064
General and administration	15,564	11,243	1,896	1,490	1,482	31,675
Interest expense	-	-	213,163	-	-	213,163
Project transaction and recoverable costs	63,696	22,243	-	11,164	19,927	117,030
Sub-contracting fees	-	10,015	-	-	-	10,015
	131,687	83,260	221,048	22,944	30,008	488,947
Surplus/(deficit)	**$ -**	**$ -**	**$ 23,538**	**$ 200**	**$ (345)**	**$ 23,393**

[1] Development includes Transit-oriented Communities.

Notes to the Financial Statements

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

	For the year ended March 31, 2023 - Budget					
($ thousands)	Project Delivery	Real Estate	Lending	Development	Commercial Projects	Total
Revenues						
Interest revenue	$ -	$ -	$ 222,670	$ -	$ -	$ 222,670
Project delivery fees	74,960	-	-	12,283	11,661	98,904
Management fees - GREP	-	57,224	-	-	-	57,224
Management fees - Corporate Realty	-	5,565	-	-	-	5,565
Project transaction and recoverable costs	79,174	6,217	-	9,066	7,267	101,724
Other income	-	340	700	-	-	1,040
	154,134	69,346	223,370	21,349	18,928	487,127
Expenses						
Salaries and benefits	54,107	39,624	6,267	10,093	9,322	119,413
General and administration	20,653	13,545	2,784	2,190	2,339	41,511
Interest expense	-	-	197,474	-	-	197,474
Project transaction and recoverable costs	79,174	6,217	-	9,066	7,267	101,724
Sub-contracting fees	-	9,960	-	-	-	9,960
	153,934	69,346	206,525	21,349	18,928	470,082
Surplus	**$ 200**	**$ -**	**$ 16,845**	**$ -**	**$ -**	**$ 17,045**

Notes to the Financial Statements

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

	For the year ended March 31, 2022					
($ thousands)	Project Delivery	Real Estate	Lending	Development	Commercial Projects	Total
Revenues						
Interest revenue	$ -	$ -	$ 223,013	$ -	$ -	$ 223,013
Project delivery fees	63,438	-	-	5,331	11,886	80,655
Management fees - GREP	-	51,367	-	-	-	51,367
Management fees - Corporate Realty	-	5,776	-	-	-	5,776
Project transaction and recoverable costs	60,029	17,383	-	2,392	23,234	103,038
Other income	-	125	538	-	-	663
	123,467	74,651	223,551	7,723	35,120	464,512
Expenses						
Salaries and benefits	45,717	36,419	5,670	3,895	8,971	100,672
General and administration	15,868	11,325	1,943	837	1,950	31,923
Interest expense	-	-	198,903	-	-	198,903
Project transaction and recoverable costs	59,488	17,383	-	2,392	23,234	102,497
Sub-contracting fees	-	9,524	-	-	-	9,524
	121,073	74,651	206,516	7,124	34,155	443,519
Surplus	**$ 2,394**	**$ -**	**$ 17,035**	**$ 599**	**$ 965**	**$ 20,993**

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