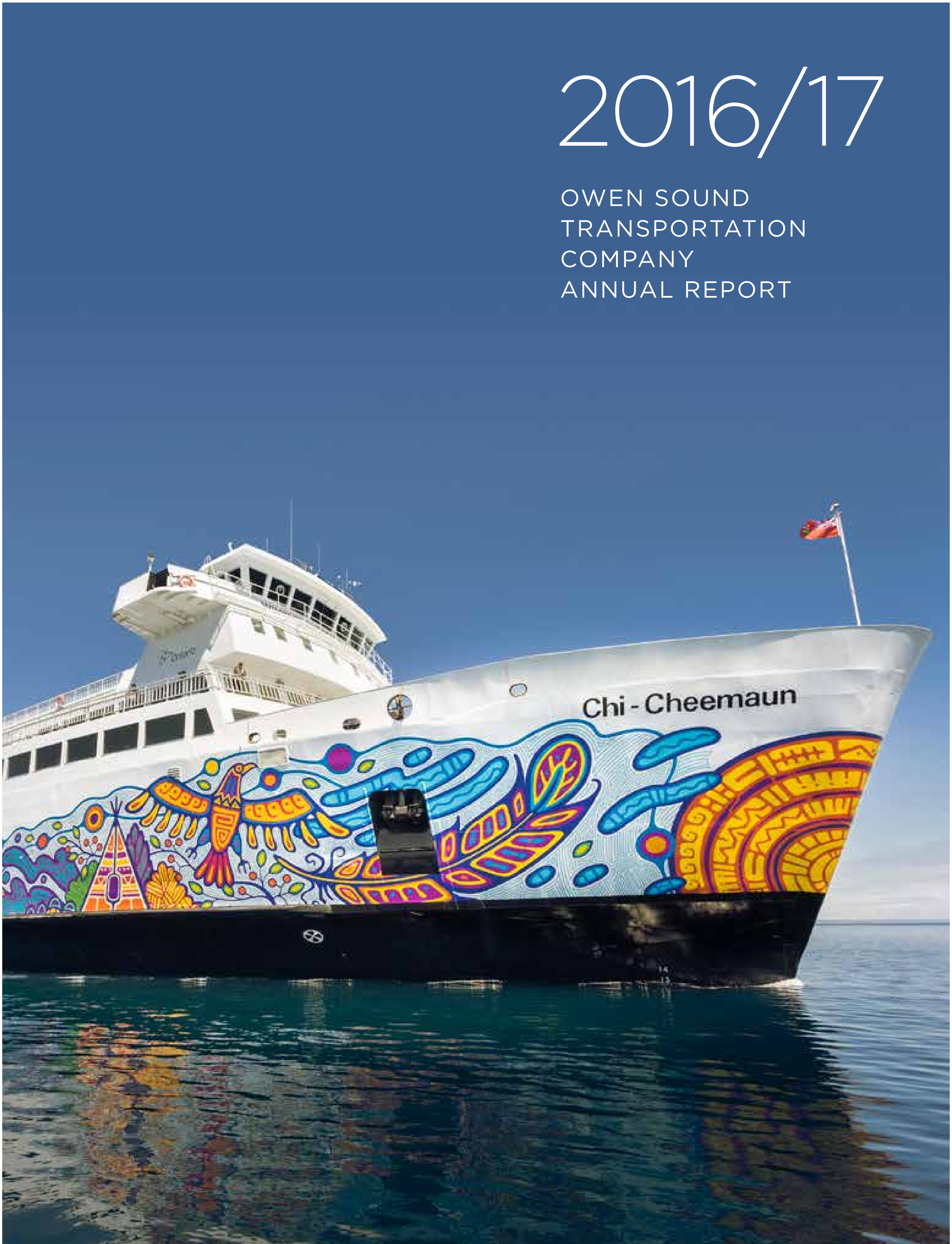
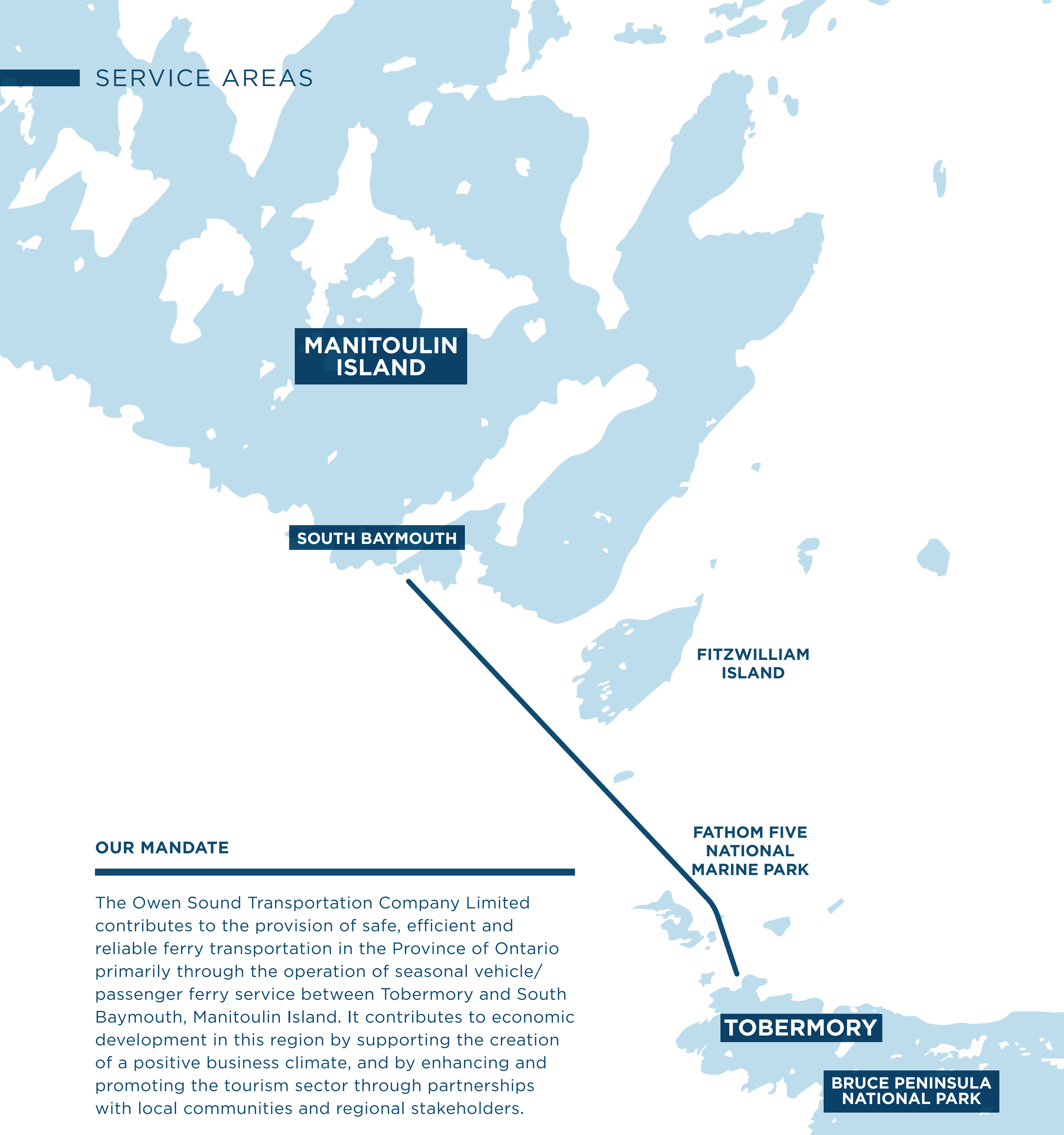
2016/17

OWEN SOUND TRANSPORTATION COMPANY ANNUAL REPORT



SERVICE AREAS



OUR MANDATE

The Owen Sound Transportation Company Limited contributes to the provision of safe, efficient and reliable ferry transportation in the Province of Ontario primarily through the operation of seasonal vehicle/passenger ferry service between Tobermory and South Baymouth, Manitoulin Island. It contributes to economic development in this region by supporting the creation of a positive business climate, and by enhancing and promoting the tourism sector through partnerships with local communities and regional stakeholders.



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The Owen Sound Transportation Company Limited is an Agency of the Province of Ontario. Services are financially supported by the Provincial Government through a Contribution Agreement with the Ministry of Northern Development and Mines.

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ISNN 1925-2366

Barney Hopkins, Chairman of the OSTC Board of Directors

> "We intend to continue to be a significant family tourist attraction in the Georgian Bay as the natural link to Manitoulin Island."

On behalf of the Owen Sound Transportation Company (OSTC) Board of Directors, I would like to again recognize the hard work of the employees and volunteers who contributed to achieving this second consecutive outstanding year of progress and positive change in our ferry services. This past year, our company has continued to form new community partnerships and invested $2.10 million in renovations to the passenger lounge and tourism information centre on the Chi-Cheemaun ferry. Our 'Travel in Good Spirits' marketing campaign was the recipient of two Provincial marketing and one National billboard award, recognition of the quality of the campaign content and effort behind increasing public awareness and attract new travellers and tourists to Northern Ontario – visitors we hope will use the ferry as their gateway to Manitoulin Island and the Bruce Peninsula.

As a result of these efforts, and our continuing commitment to the implementation of marketing and business development strategies recognized and recommended in our 2013 Ferry Market Feasibility Study, I am pleased to report that for the second year in a row, the 2016 Chi-Cheemaun usage increased beyond expectations by 9.40% in passenger and 7.63% in vehicle traffic over the 2015 operating season.

We are also pleased to report on the successful operating season of Niska I, our landing craft ferry operating between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay. This crucial service provides the only means of moving food, vehicles, general and dangerous goods to the Island during the open water season. The ship made 1,256 one-way crossings on a near perfect season between break-up and freeze-up, June through October, with no disruptions to service due to mechanical failure.

We intend to continue to be a significant family tourist attraction in the Georgian Bay as the natural link to Manitoulin Island, and will ensure that you and your family "travel in good spirits" when on board any of the ships operated by the Owen Sound Transportation Company. ■

BARNEY HOPKINS
Chairman of the OSTC
Board of Directors

At OSTC we are committed to, and responsible for the fulfillment of our mandate to provide safe, efficient and reliable ferry transportation in the Province of Ontario primarily through the operation of seasonal ferry services to Manitoulin Island, Moose Factory Island, and Pelee Island, the latter by contract for the Ministry of Transportation. Further, the Chi-Cheemaun, the only ferry OSTC operates that is in direct competition with a highway, is additionally mandated to promote and contribute to economic development in the Tobermory/South Baymouth region by supporting a positive business climate, enhancing and promoting the tourism sector through partnerships with local communities and regional stakeholders.

While safety is mentioned only once in our mandate, it is the foundation for all OSTC's strategic plans, goals, objectives, and daily decisions made by all OSTC employees. And while OSTC's success is once again in 2016 demonstrated through solid fiscal performance, operational reliability, successful community partnerships, and by exceeding the needs and expectations of our customers – all of those successes were only made possible through a clear focus and commitment to safety which included significant investments in both our assets and our people.

The OSTC has been challenged in the last ten years with decreasing ridership on the Chi-Cheemaun as many tourists have moved away from travelling by ferry in favour of using the newly widened Highway 400 to reach Manitoulin Island and parts of Northern Ontario. In 2013, we embarked on the Ferry Market Feasibility Study project and engaged the public to tell us what kind of ferry experience would cause them to choose it over the highway. We learned that our current and potential customers want the ferry to be a significant and satisfying part of their trip, a source of vacation memories – the night they were entertained by and met award winning Canadian musical performers; the day they learned about Manitoulin Island through stories told by one of the Island's respected Anishinaabe storytellers; the night that they were taken on a guided tour

M.S. Chi-Cheemaun's new Fathom Five Lounge of the brilliant stars in the dark skies above Lake Huron, free of interference from city lights; the day they discovered the item of artwork that spoke to them from the hands of local artisans; the day they understood what 'Travel in Good Spirits' really means. We learned that they want to enjoy food produced in the area, and so we have incorporated beef raised on the Bruce Peninsula, and whitefish from Manitoulin Island in our daily and Dinner Cruise menus. Our wine features award-winning local and Ontario vintners, and our craft beer tasting events bring the best of craft beer producers from Manitoulin Island, the Bruce Peninsula and the southern coast of Georgian Bay. In 2016, we generated $1,387,002 in ancillary revenue from onboard amenities including food and retail services, an 11% increase over the prior year.

> "We are very proud of the impact our 'Travel In Good Spirits' marketing campaign has had on our customers, our communities and the recognition it has garnered for the Province of Ontario through the marketing and tourism awards received in 2016."

Major investments were made in 2016 to upgrade and modernize the 42-year-old Chi-Cheemaun, most significantly the renovation of Chi-Cheemaun's Fathom Five Lounge, and the on-board Tourism Information Centre, as well as the installation of a new emergency generator and emergency switchboard for the ship. We took the opportunity during the vessel's mandatory out-of-water inspection to sandblast and re-coat the entire exterior hull of the Chi-Cheemaun to continue to protect and preserve her steel structure, to ensure that all coatings on the vessel are toxin free and environmentally friendly, and to prepare a perfect surface on which to apply the colourful, larger than life vinyl graphic on the vessel's bow visor and hull when she returned to her winter berth in Owen Sound. As exciting as the capital improvements and investment in infrastructure are to plan, implement and benefit from, the company is also largely invested in the training and development of our personnel to ensure that OSTC continues to deliver safe, efficient, reliable and accessible ferry services.

We are very proud of the impact our 'Travel in Good Spirits' marketing campaign has had on our customers, our communities and the recognition it has garnered for the Province of Ontario through the marketing and tourism awards received in 2016. More important, it's message continues to resonate with each and every OSTC employee, committed to delivering a quality ferry service, and unique experience as requested by our customers.

This year we completed the exterior re-branding of the Chi-Cheemaun with the application of the larger than life graphic images reminiscent of Manitoulin Island and the Bruce Peninsula. The new colours and images on the ship are also a celebration of the name given to the ferry in 1974 by Donald Keeshig, a member of the Chippewas of Nawash Unceded First Nation who occupy Neyaashiinigmiing Reserve No. 27 on the eastern shore of the Bruce Peninsula. Translated from Ojibwe, Chi-Cheemaun means "Big Canoe."

For the second consecutive year, on Thursday, May 5, 2016, while on her repositioning voyage from the winter berth in Owen Sound to the operating berth in Tobermory, Chi-Cheemaun deviated from her normal route, turned her bow to Lighthouse Point at Neyaashiinigmiing and blew a salute in honour of Donald who is no longer with us. The salute is in recognition of Donald's gift of wisdom, and an annual reminder of our responsibility to care for the Big Canoe and the people who ride within her. Chi-miigwetch, Donald. ■

SUSAN SCHREMPF
President & CEO

The Owen Sound Transportation Company Limited (OSTC) was established under the Ontario Business Corporations Act on March 10, 1921 as a private sector business in receipt of both Federal and Provincial subsidies. In 1973, the Province of Ontario became the sole shareholder of the corporation and from 1973 until March 31, 2002 the OSTC was operated by the Ontario Northland Transportation Commission (ONTC) under the Ontario Northland Act.

On April 1, 2002, OSTC was separated from the ONTC and established as an Operational Enterprise Agency of the Province of Ontario with its administration office in Owen Sound, Ontario.

OSTC is an integral part of Ontario's tourism and transportation system. During 2016/17, the OSTC was responsible for the operation of four ships and six terminal and dock facilities servicing four ferry routes, as well as one seasonal air service in Ontario.

OSTC owns and operates the MS Chi-Cheemaun ferry which provides seasonal service to a largely tourism based ridership between Manitoulin Island and the Bruce Peninsula on Lake Huron. MV Niska I, a landing craft ferry also owned by OSTC provides vehicle, freight and passenger transportation services between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay.

OSTC is contracted by the Ministry of Transportation to manage and operate the Pelee Island Transportation Service, a year-round transportation system consisting of ferry service on Lake Erie between the Ontario ports of Kingsville and Leamington to Pelee Island from April through December, including summer only service between Pelee Island and Sandusky, Ohio, and a winter air service between Pelee Island and Windsor, Ontario from late December through the end of March.

During the peak operating season OSTC's workforce consists of 31 full-time and seasonal management employees, and 150 unionized seasonal employees for the Manitoulin Island and Pelee Island ferry services. Unlicensed and non-management employees are members of the Seafarers International Union of Canada under Collective Agreements expiring December 31, 2018. OSTC contracts the services of Complex RE Limited Partnership, a wholly owned subsidiary company of the Moose Cree First Nation on Moose Factory Island, for the provision of Niska I crews and daily vessel operation. ■

SHIP	SIZE	CAPACITY	ROUTE	SEASON	CROSSING TIME(MIN)
Chi-Cheemaun	106m	638psgr/140veh	Tobermory - South Baymouth	May - Oct	120
Niska I	27m	47psgr/6veh	Moosonee - Moose Factory Island	June - Oct	20
Jiimaan	61m	385psgr/35veh	Kingsville/Leamington - Pelee Island	May - Nov	90
Pelee Islander	42m	196psgr/10veh	Kingsville/Leamington - Pelee Island	Apr - Dec	90
Pelee Islander	42m	196psgr/10veh	Pelee Island - Sandusky, OH	May - Sept	90

The Ontario Minister of Northern Development and Mines, pursuant to a sole shareholder declaration in accordance with section 108 of the Business Corporations Act, R.S.O. 1990, c. B.16, exercises control over the OSTC's volunteer Board of Directors who are responsible for the administration of the business of the OSTC.

The Board of Directors has fiduciary duty to carry out the duties of their office honestly and in good faith in the best interests of the Corporation and in accordance with the management principles and guidelines of the Government of Ontario. These principles include ethical behaviour, accountability, and excellence in management, wise use of public funds, high-quality service to the public and fairness in the marketplace.

In the 2014 Budget the Ontario government committed to providing all appointees to agencies with governance training related to their responsibilities overseeing Ontario's agencies. To meet this commitment all OSTC directors have completed the Governance Training for Public Appointees E-Module or in-person training sessions.

The Board of Directors sets the standards of conduct for the Corporation and ensures the safety of its operations, supervising the conduct of the business through the President and CEO, to whom it delegates the responsibility of leadership and management of the Corporation. ■

BOARD OF DIRECTORS

Mr. Barney Hopkins
Chair, Tobermory
(01 April 2002 – 31 March 2017)

Mr. Martin Garfield Brown
Director, South Baymouth
(01 July 2005 – 30 June 2017)

Mr. John Greenway
Director, South Baymouth
(01 April 2007 – 31 March 2017)

Mr. Hugh Moggy
Director, Manitowaning
(01 June 2007 – 31 May 2017)

Mr. Bill Caulfeild-Browne
Director, Tobermory
(15 June 2012 – 30 June 2017)

EXECUTIVE/OFFICERS

S.M. Schrempf
President, CEO
and Secretary to
Board of Directors

S. Shaw
Vice President of Operations

J. Ostrander
Vice President of Engineering

KEY INDICATORS	2016/17	2015/16	2014/15	2013/14
CHI-CHEEMAUN				
1 Income per passenger (ticket and on-board sales)	$ 40.03	$ 38.85	$ 38.74	$ 39.20
2 Expense per passenger (operating only, not including "6")	$ 47.45	$ 49.45	$ 52.67	$ 52.11
3 Percentage of operating expenses recovered from income	83.25%	78.56%	73.54%	75.22%
4 Retail Service Revenue per passenger	$ 6.98	$ 6.71	$ 5.64	$ 6.40
5 Advertising expense per passenger	$ 1.17	$ 1.40	$ 1.11	$ 1.16
6 New Branding Mktg Campaign cost per passenger	$ 2.50	$ 2.71	$ 2.90	$ -
Fuel expense per one-way crossing (avg from total fuel cost)	$ 1,036.00	$ 1,127.29	$ 1,465.76	$ 1,422.21
Passengers carried	202,763	185,712	167,593	166,224
Utilization - passengers	31.65%	29.13%	25.63%	27.37%
Vehicles carried	79,191	73,578	67,699	66,385
Utilization - vehicles	61.71%	57.15%	47.93%	54.68%
Annual total # of departures	1004	1012	1038	952
Average # of vehicles per departure	79	73	65	70
Average # of passengers per vehicle per departure	2.56	2.52	2.48	2.50
NISKA I				
Income per passenger (ticket sales)	$ 37.71	$ 38.28	$ 79.64	
Expense per passenger (operating only)	$ 122.71	$ 121.08	$ 274.53	
Percentage of operating expenses recovered from income	30.73%	31.62%	29.01%	
Fuel expense per one-way crossing (avg from total fuel cost)	$ 18.97	$ 21.04	$ 30.34	
Passengers carried	5288	5627	2226	
Vehicles carried	3169	3283	2828	
Annual total # of departures	1256	1318	1167	
Average # of vehicles per departure	2.52	2.49	2.42	
Average # of passengers per vehicle per departure	4.21	4.27	1.91	

FINANCIAL HIGHLIGHTS (COMBINED SERVICES OSTC AND NISKA I)	2016/17	2015/16	2014/15	2013/14
OPERATIONS:				
Commercial Revenues	$ 8,115,769	$ 7,429,439	$ 6,669,030	$ 6,670,967
Operating Contract Revenues	$ 460,161	$ 465,969	$ 434,902	$ $462,926
(1) Total Revenue	**$ 8,575,930**	**$ 7,895,408**	**$ 7,103,932**	**$ 7,133,893**
Operating Expenses	$ 13,165,883	$ $9,776,265	$ $9,383,315	$ $8,970,684
Marketing	$ $507,382	$ $502,845	$ $486,330	$ -
Amortization	$ $970,704	$ $865,893	$ $845,814	$ 716,760
Total Expense	**$ 14,643,969**	**$ 11,145,003**	**$ 10,715,459**	**$ 9,687,444**
Loss before Provincial Funding	$ (6,068,039)	$ (3,249,595)	$ (3,611,527)	$ (2,553,551)
Provincial Funding - operating	$ 2,363,000	$ 2,572,000	$ 2,810,000	$ 2,545,703
**Provincial Funding - capital projects and drydock expensed in operating (1)	$ 3,597,357	$ 178,687	$ 78,866	$ -
(2) Net earnings (loss)	**$ (107,682)**	**$ (498,908)**	**$ (722,661)**	**$ (7,848)**
ASSETS:				
Financial Assets	$ 3,300,143	$ 3,072,245	$ 2,225,528	$ 1,851,164
Non-financial Asset	$ 210,587	$ 186,830	$ 66,785	$ 34,593
Investment in Capital Assets	$ 20,370,335	$ 19,232,987	$ 16,994,711	$ 17,291,502
Total Assets	**$ 23,881,065**	**$ 22,492,062**	**$ 19,287,024**	**$ 19,177,259**

NOTES TO KEY INDICATORS:				
(1) Total expenses per audited financial statements	$ 14,725,704	$ 11,233,132	$ 10,802,809	$ 9,773,671
Less: Amortization (reported separately above)	$ (970,704)	$ (865,893)	$ (845,814)	$ (716,760)
Marketing Costs (reported separately above)	$ (507,382)	$ (502,845)	$ (486,330)	$ -
Change in WSIB	$ (23,769)	$ (39,917)	$ (37,024)	$ (33,080)
Change in Employee Future Benefits	$ (57,966)	$ (48,212)	$ (50,326)	$ (53,147)
Total Operating Expenses per Above	$ 13,165,883	$ 9,776,265	$ 9,383,315	$ 8,970,684
(2) Annual surplus (deficit) per audited financial statements	$ 1,775,193	$ 2,525,132	$ (215,209)	$ 4,070,617*
Less: Capital funding from MNDM (capital expenses directly financed and not included in operating expenses - therefore, capital funds do not cover operating losses)	$ (2,036,331)	$ (3,112,169)	$ (594,803)	$ (452,852)
Remove change in WSIB Obligation	$ (23,769)	$ (39,917)	$ (37,024)	$ (33,080)
Remove change in Employee Future Benefits	$ (57,966)	$ (48,212)	$ (50,326)	$ (53,147)
Adjusted Net Loss	$ (342,873)	$ (675,166)	$ (897,362)	$ 3,531,538

*See Note 10 "Tangible Capital Assets" in 2014 Audited Financial Statement: "On December 4, 2013 a transfer agreement was executed between OSTC and Ontario Northland Transportation Commission transferring ownership of the Niska I Ferry at a net book value of $4,102,601 and the Manitou Island II Ferry at a NBV of $1. No actual cash was transferred."
**2016/17: $3,525,636 for 5 yr dry-dock + $71,721 in excess of capital funding

FERRY TRAFFIC: In 2014, OSTC established a long-term, reasonable and sustainable traffic target to carry 87,000 vehicles and 226,000 passengers per year. These targets were developed based on the existing ship capacity and operating schedule, as well as historical experience. With 2% as the baseline for annual traffic increases commencing with the 2015 season, OSTC determined that peak traffic carriage could be attained by 2028.

MS CHI-CHEEMAUN VEHICLE AND PASSENGER TRAFFIC 2013 - 2016	May	June	July	Aug	Sept	Oct	Total	% change from prior year
VEHICLES								
2016	6,317	10,953	21,791	21,572	13,323	5,235	79,191	7.63%
2015	5,915	9,771	19,601	20,867	12,097	5,327	73,578	8.68%
2014	5,345	10,053	17,735	20,054	9,906	4,606	67,699	1.98%
2013	3,378	9,432	17,907	20,628	9,933	5,107	66,385	-6.44%
PASSENGERS								
2016	13,529	24,614	59,385	61,916	31,645	11,674	202,763	9.18%
2015	12,246	21,750	52,932	58,947	27,961	11,876	185,712	10.81%
2014	10,906	22,272	46,321	56,613	21,689	9,792	167,593	0.82%
2013	7,479	21,272	47,228	57,606	21,315	11,324	166,224	-6.79%

Traffic carried in 2015 exceeded not just the one-year target, but jumped ahead to the 2019 target, and moved the peak traffic target year to 2026.

The OSTC is pleased to report that traffic carried in 2016 once again surpassed expectations with increases of 7.63% and 9.40% in vehicles and passengers respectively. Provided traffic continues to grow at a rate of no less than 2% per year, OSTC can reach its peak traffic target by 2021 for vehicles and 2022 for passengers, seven years ahead of the original schedule.

MARKETING: Throughout 2016, OSTC and Cleansheet Communications continued to improve, develop and distribute additional marketing media components, building on 2015's established success of the "Travel in Good Spirits" marketing campaign. OSTC focused on repeating the media distribution strategy for a second year in 2016 with improvements to the new customer focused website, poster campaigns in the TTC and on GoTransit, radio, digital, and focused campaigns on multiple social media platforms. In late winter 2016/17, a brilliantly coloured vinyl graphic wrap, the cornerstone imagery of the campaign, was applied to the bow of the ship and completed the exterior "re-branding" of the ferry.

OSTC's "Travel in Good Spirits" marketing campaign won three marketing awards in fall 2016:

- 2016 Tourism Northern Ontario – President's Award: "Presented to an individual or organization who demonstrated exceptional support, innovation or development to the tourism industry in Northern Ontario."
- 2016 Sign Media National Billboard Award for Best Vehicle Graphics
- 2016 Ontario Tourism Marketing & Travel Media Awards of Excellence for a Tourism Marketing Campaign valued at over $25,000
- 2016 Ontario Tourism Marketing & Travel Media Awards of Excellence Finalist for Digital Marketing Award.

BUSINESS DEVELOPMENT: On-board passenger experiences are very important to OSTC's customers and the agency continued to work with community partners to provide passengers with a sampling of regional and cultural experiential opportunities unique to the Bruce Peninsula and Manitoulin Island. In 2016, OSTC added the first annual Craft Brews Tasting Cruise to the summer events schedule, a cruise which brought together new and established Craft Breweries from the ferry's operating region with a new audience of interested customers largely comprised of tourists from other Provinces and countries.

Chi-Cheemaun's seasonal event schedule now includes:

- Authentic Indigenous craft demonstrations and story-telling;
- Nightly guided tours of Lake Huron's Dark Skies in the month of August;
- 4-hour round trip Fine Dining Cruises, 4 nights a week;
- Fine Dining and entertainment cruises on selected Dining Cruise crossings featuring professional, award-winning Canadian musicians;
- Floating Art exhibitions curated by invited galleries including the Tom Thomson Art Gallery in Owen Sound, and the Ojibwe Cultural Centre from Manitoulin Island;
- Annual "Crafts on the Crossing" show and sale with work from area artisans;
- Park's Canada interpreters providing passengers with information on the unique natural wonders of the region, above and below the water; and,
- Annual "Craft Brews Cruise".

OSTC continued to support Canadian musicians and hosted several performers through the "Play for Passage" program in 2016. Professional musicians traveling through the area apply to provide entertainment on the ship in exchange for free passage on their crossing. This program was very well received by passengers and well utilized by musicians.

OSTC promotes and supports bicycle touring on the Bruce Peninsula and Manitoulin Island and, is a member of Cycle Ontario, and a major sponsor of, and participant in the annual Manitoulin Passage Rides, organized by the Manitoulin Island Cycling Association. The ferry service also provides rest-stop and minor bicycle repair facilities at the Owen Sound office in Springmount, and both the Tobermory and South Baymouth terminals.

MAJOR CAPITAL: $2,108,050 was spent on capital projects completed during the year, the largest of which was the renovation of the Chi-Cheemaun's Fathom Five Lounge, and the Tourism Information Centre. These renovations are in line with the third year of a five-year interior renovation program which when complete, will be the first total interior space renovation in the 40+ year life of the vessel. This work included the removal and replacement of wall panels with new, lightweight and fire-rated paneling, replacement of floor coverings, installation of new fire doors, purchase of new furniture and fixtures, exchange of fluorescent light banks with

11%

Increase in ancillary revenue from onboard amenities including food and retail services in 2016.

dimmable LED pot lights, and the installation of a new beverage service area in the lounge. The new Tourism Information Centre was completely re-designed and now includes a large and flexible open space in the centre of the room where movable brochure racks and cabinets are located, and where digital information kiosks will be installed at a future date. The area has an accessible tourism information counter as well as fixed tables and chairs along each bank of side windows.

Colours selected for surface materials, floor coverings and cabinetry were specifically coordinated in keeping with the designs and colours found in the company's marketing creative, and the vinyl decal art applied to the vessel's exterior.

OSTC also purchased and installed a larger ship's emergency generator to better support existing and future emergency power supply requirements.

On shore, OSTC renovated the interior of the Tobermory

M.S. Chi-Cheemaun had an exceptional year in 2016 with no trips lost or delayed as a consequence of mechanical issues.

Terminal office space and customer service counters, creating a brighter and more open work space for employees, and accessible service counters for customers. At South Baymouth, the passenger boarding ramp structure was sandblasted and re-coated.

MACHINERY: Chi-Cheemaun is the only ship available to this route and as such, is expected to operate with a zero-failure rate. In 2007/2008, the ship was completely re-powered with internal mechanical propulsion redundancy so that if a major propulsor required repair or maintenance during the operating season, it would not be a ship-stopping event, and would in fact be invisible to the customers.

The vessel also has non-propulsion related systems that cannot be retrofitted with redundant or back-up systems, and when a failure occurs in one of those ancillary systems, there is the potential for the ship to be forced out of service while repairs are completed. OSTC has a planned replacement schedule for those components which include the steering gear, hydraulic door lifting mechanism and the vessel stabilizing units.

The ship underwent its mandatory quinquennial out-of-water docking maintenance and inspection in October and November 2016. In addition to the normal work on the shaft line and propellers, all interior tanks were cleaned and re-coated, and the exterior hull was sandblasted and re-coated with environmentally friendly, epoxy type coatings. There were no extraordinary findings during the out of water inspection.

SAFETY & ENVIRONMENT: OSTC has maintained voluntary International Safety Management Code compliance since receiving certification through Lloyd's Classification Society in 1997. The Safety Management System provides policies and procedures in every area of the operation for the intended purpose of reducing safety and environmental incidents which have been proven to be predominantly the consequence of human error or behaviour. Through regular internal and external audits, the system is in a state of constant improvement and is used to evaluate and reduce the risk inherent in the operation of a marine transportation service. OSTC's commitment to continuous improvement in 2016/17 continued to focus on the identification and reporting of near misses, and the review and improvement of comprehensive risk management strategies, policies and procedures.

OSTC experienced one environmental non-compliance incident in 2016/17, and no safety non-compliance incidents.

OSTC enrolled in the Green Marine environmental certification program in 2014 for all four vessels the company has operational responsibility over. The company underwent its first 2-year external audit in spring 2016 and received the 2-year renewal of certified participant status. Green Marine participants are committed to continuously reducing their environmental footprint. Each year, participants benchmark their environmental performance through Green Marine's detailed framework. OSTC entered Green Marine at a Level 2 on the 1-to-5 performance indicator scale. Level 1 constitutes the monitoring of regulations, while Level 5 indicates leadership and excellence. Given the age of OSTC's vessels, advancement beyond Level 3 is only possible through major structural changes such as converting to zero emission fuel products, not possible at this time for Chi-Cheemaun, Niska I, or the regions in which they operate.

OSTC continues to work on improvement in all areas of the operations that the company has the ability to influence.

OCCUPATIONAL SAFETY AND HEALTH: OSTC is accountable to the Ontario Ministry of Labour Occupational Health and Safety Act and Regulations, specifically the Construction Regulations, and not the Marine Occupational Health and Safety Regulations (MOHS) that apply to most Marine Sector employers as a consequence of the Province of Ontario not having entered into an agreement with the Government of Canada to assume responsibility for enforcement and inspection of Occupational Health and Safety on ships owned by the Province. OSTC does however, maintain compliance with both the Provincial Regulations and MOHS as the MOHS regulations are often more stringent and more applicable to the marine working environment.

There were no changes to Occupational Health and Safety Regulations during the 2016/17 period that affected OSTC, or which had not already been incorporated into OSTC's Policies and Procedures as a matter of "best practice."

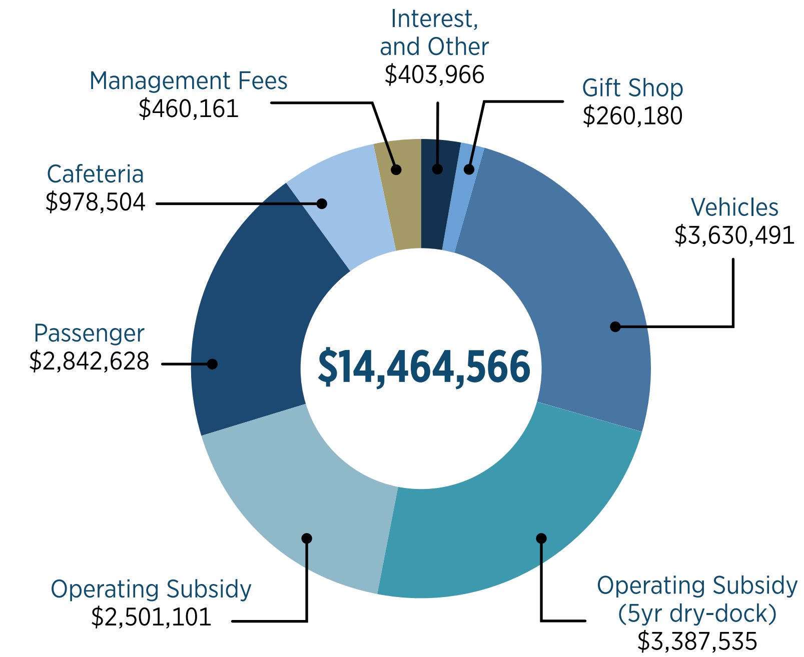
CUSTOMER SATISFACTION: OSTC conducted an on-line customer satisfaction survey in 2016/17 by inviting customers via social media and the OSTC website to complete the survey and offer their ideas and opinions on how OSTC can improve the ferry service. The agency received 250 completed surveys, a number that is statistically insignificant for 2016's total ridership of 203,174 passengers. Those respondents did register an 84% overall satisfaction level, with 92% reporting that they would take the ferry again, and 93% would recommend the ferry to friends and family.

MOOSONEE/MOOSE FACTORY ISLAND FERRY: The opening of the ferry service season on the Moose River arrived a few weeks later than normal due to late break-up of ice on the river which delayed putting in the overnight tie-up dock, and launching the ferry. A warmer than normal fall extended the operating season by approximately 3 weeks which offset the losses from the late spring start, and resulted in no significant change to total traffic carried for 2016 as compared to 2015. There were no ferry service interruptions due to mechanical matters.

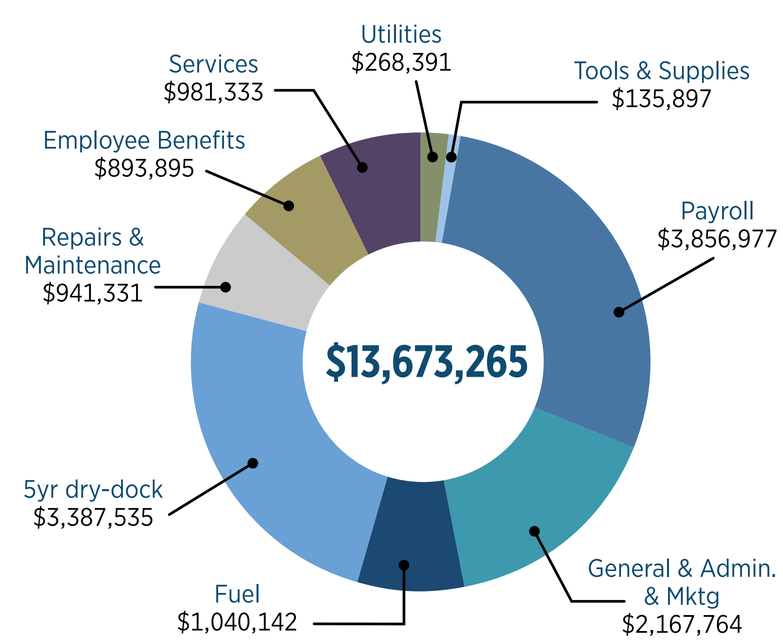
OSTC and its sub-contracted vessel operator, Complex RE continued the co-op work placement program for employment opportunities on board Niska I made available to high school students over age 16. Students working on the ferry learn about vessel operations, provide assistance to the Senior Deckhand with loading/unloading, passenger management, and participate in daily vessel maintenance.

OSTC was able to dismantle and dispose of the retired ferry, MV Manitou Island II, in late fall 2016. ■

2017 Operating Revenue



2017 Operating Expenses



CHI-CHEEMAUN REVENUES: Traffic on the M.S. Chi-Cheemaun, and corresponding revenue from traffic and on-board spending exceeded budgeted expectations by 7.3%. Revenue from Chi-Cheemaun operations for 2016/17 was $7,690,685 versus the budgeted amount of $7,136,693 which was based on achieving a 2% overall increase in traffic over traffic levels carried in 2015/16. This improved performance has narrowed the gap between expenses and revenues from operations to 83.25% expense costs (not including the vessel 5-year dry dock expense) recovered from revenue in 2016/17, up from 78.56% in 2015/16, meaning that the operating subsidy requirement per passenger provided by the Province has been reduced even further to 16.75% of actual cost.

Chi-Cheemaun operated the 2016 season without any service interruptions due to mechanical issues. One round trip was cancelled and two round trips were delayed due to high winds experienced on August 21, the consequence of which was an estimated loss of 400 vehicles and 1,069 passengers based on a direct comparison to the traffic carried on the same day of operation in the prior year.

OSTC's operating contract with the Ontario Ministry of Transportation Service for the management and operation of the Pelee Island Transportation

Service was extended to March 31, 2018 and amended to include a protocol to compensate OSTC for time and expenses specific to contributions made at MTO's request on the new ferry project. MTO announced in October 2015 that a new ship would be built for introduction into service in 2018, and to replace the aging MV Pelee Islander. OSTC's annual management contract with MTO generated $465,969 in 2015/16 after having been validated in a 2014 "value for service" audit subsequent to the extension of the agreement which allowed OSTC to invoice for two years of unpaid COLA increases. In 2016, the base value of the management agreement, and the fee collected by OSTC for services was $460,161.

CHI-CHEEMAUN EXPENSES: Fuel costs over the last few years have experienced strong fluctuations, both favourable and unfavourable to buyers, in response to market and international political events. OSTC's 2016 fuel budget accounted for a potential 15% increase in fuel costs over actual 2015 experience. Due to market conditions in 2016 that were favourable to buyers, OSTC's actual fuel cost was $1,016,317, 11% lower than actual costs of 2015 and 22% lower than budgeted, resulting in a $293,083 savings from budget.

Wages and Benefits costs for 2016/17 were 3.2% lower than budget as OSTC had included a wage correction amount in anticipation of the Province of Ontario relaxing or lifting the provincial wage restraint directives for management personnel that did not come to fruition.

OSTC's second year of the "Travel in Good Spirits" marketing campaign cost $507,000 for additional creative content, and wider distribution and saturation of media placement. OSTC attributes the rapid turnaround in ferry traffic, now showing two straight years of significant and consistent increases, to the marketing campaign. The campaign covered its costs in both years having generated an additional $647,083 in passenger revenue in 2015, and another $651,851 in 2016, without OSTC having to apply an increase to the fare structure.

Repair and Maintenance expenses of $4,172,276 including the $3,525,636 cost of the 5-year, out-of-water inspection and maintenance, as well as subsequent work. The remaining $646,640 repair expense was under budget by 14% as there were no machinery breakdowns requiring repair during the operating season.

NISKA I REVENUES AND EXPENSES: Revenue from ferry services fell $3,098, or 1.5% below budget due to the shift in the ferry operating season created by weather patterns, and fewer individual walk-on passengers using the ferry.

Expenses of $58,888 were incurred in excess of budget, $39,234 of which was for additional service provided by Complex RE (crewing of vessel) as the operating season was marginally longer than the 6 months of the annual contract, and there were more off-hours charters conducted over the summer.

Repair and maintenance costs were $99,173 higher than budget and is made up of $56,045 for mandatory

engine overhauls, and $48,038 in operating repairs through the season. It should be noted that over 50% of those costs is attributed to the cost of travel and equipment transportation and accommodation for the contractors who must be flown in to do the service work required. The OSTC sends OSTC engineers to oversee fit-out and lay-up of the vessel at a cost of $19,765 for 2016/17.

Higher than budgeted repair and maintenance costs were somewhat offset by lower than budgeted fuel costs, and lower than budgeted General and Admin costs, predominantly in the "all other operating costs" category.

The Moosonee to Moose Factory Island ferry service had an annual operating loss of $449,485 before Provincial subsidy of $387,500. Revenues from operations covered 30.73% of direct operating costs. The remaining deficit of $61,985 not covered by Provincial subsidy was covered by a reduction in OSTC's accumulated general surplus.

FINANCIAL OVERVIEW – SUMMARY: OSTC experienced a net operating loss of $5,557,496 (exclusive of amortization, and changes in WSIB and Future Employee benefits) before the Provincial operating subsidy of $5,888,636 which included $3,387,535 for Chi-Cheemaun's 5-yr dry docking, and $500,000 for additional marketing of the ferry service. OSTC also earned $460,161 from outside operating contracts which contributed to the total net earnings from operations of $791,301.

Capital asset investment of $2,108,052 included the renovation of Chi-Cheemaun's Fathom Five passenger lounge and the tourism information centre, restoration of wall paneling in the Officer's quarters, purchase and installation of a new emergency generator, renovations inside the Tobermory terminal, blasting and re-coating of the South Baymouth passenger ramp structure, and the purchase and application of the bow visor vinyl wrap. ■

OWEN SOUND TRANSPORTATION COMPANY LIMITED

FINANCIAL STATEMENTS

For the year ended March 31, 2017

CONTENTS

MANAGEMENT'S RESPONSIBILITY

The Owen Sound Transportation Company Limited's management is responsible for the integrity and fair presentation of the financial statements and other information included in the annual report. The financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involved the use of management's judgement and best estimates, particularly when transactions affecting the current accounting period are based on projections into the future. All financial information in this annual report is consistent with those financial statements.

The Company maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded. The financial statements have been reviewed by the company's Audit Committee (Governing Board of Directors Committee of the Whole) and have been approved. ■

SUSAN SCHREMPF
President & CEO

Owen Sound, Ontario
July 12, 2017

Tel: 519 376 6110
Fax: 519 376 4741
www.bdo.ca

BDO Canada LLP
1717 2nd Avenue E, Third Floor
PO Box 397
Owen Sound ON N4K 5P7 Canada

Independent Auditor's Report

To the Members of The Owen Sound Transportation Company Limited

We have audited the accompanying financial statements of The Owen Sound Transportation Company Limited, which comprise the statement of financial position as at March 31, 2017 and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Owen Sound Transportation Company Limited as at March 31, 2017 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Owen Sound, Ontario
July 12, 2017

STATEMENT OF FINANCIAL POSITION

MARCH 31	2017	2016
Financial Assets		
Cash and cash equivalents (Note 2)	$ **1,993,949**	$ 42,824
Accounts receivable (Note 3)	**1,230,973**	2,983,435
Inventory held for resale	**75,221**	45,986
	3,300,143	3,072,245
Liabilities		
Bank indebtedness (Note 4)	**-**	856,736
Accounts payable and accrued liabilities	**820,920**	432,109
Employee future benefit obligations (Note 6)	**997,404**	939,438
Workers' safety insurance obligations (Note 7)	**276,744**	252,975
	2,095,068	2,481,258
Net financial assets	**1,205,075**	590,987
Contingencies (Note 11)		
Non-financial assets		
Inventory for own use	**210,587**	186,205
Prepaid expenses	**–**	625
Tangible capital assets (Note 8)	**20,370,335**	19,232,987
	20,580,922	19,419,817
Accumulated surplus (Note 9)	$ **21,785,997**	$ 20,010,804

Approved on Behalf of the Company:

Chair

President & CEO

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

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED MARCH 31	2017	2017	2016
	Budget (Note 10)	**Actual**	Actual
Revenues			
Ministry of Northern Development and Mines subsidy (Note 13(a))	$ 8,039,000	$ **7,924,967**	$ 5,862,856
Vehicles	3,415,840	**3,630,491**	3,344,895
Passenger revenue	2,637,402	**2,842,628**	2,619,104
Cafeteria	885,156	**978,504**	869,796
Pelee Island ferry service management fee (Note 13 (b))	523,981	**460,161**	465,969
Interest, freight and other	320,326	**353,466**	372,315
Tuck and terminal gift shop revenue	227,795	**260,180**	223,329
Ontario Tourism Marketing Partnership	–	**50,500**	–
	16,049,500	**16,500,897**	13,758,264
Expenses			
Repairs and maintenance (Note 13(a))	3,807,017	**4,328,866**	977,502
Salaries and wages	3,983,901	**3,856,977**	3,936,385
General and administrative expenses	2,016,810	**2,167,764**	2,011,832
Fuel	1,344,400	**1,040,142**	1,168,547
Services	967,334	**981,333**	914,982
Employee benefits	940,075	**975,630**	949,115
Amortization	-	**970,704**	865,893
Utilities	275,463	**268,391**	268,270
Tools and operating supplies	142,000	**135,897**	140,606
	13,477,000	**14,725,704**	11,233,132
Annual surplus (Note 10)	**2,572,500**	**1,775,193**	2,525,132
Accumulated surplus, beginning of the year	20,010,804	**20,010,804**	17,485,672
Accumulated surplus, end of the year	$ 22,583,304	$ **21,785,997**	$ 20,010,804

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

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31	2017	2017	2016
	Budget (Note 10)	**Actual**	Actual
Annual surplus (Page 21)	$ 2,572,500	**$ 1,775,193**	$ 2,525,132
Acquisition of tangible capital assets	(2,676,000)	**(2,108,052)**	(3,112,169)
Amortization of tangible capital assets	-	**970,704**	865,893
Loss on the disposal of capital assets	-	**-**	8,000
	(2,676,000)	**(1,137,348)**	(2,238,276)
	(103,500)	**637,845**	286,856
Change in inventories for own use	-	**(24,382)**	(120,045)
Change in prepaid expense		**625**	-
Increase (decrease) in net financial assets	(103,500)	**614,088**	166,811
Net financial assets, beginning of the year	590,987	**590,987**	424,176
Net financial assets, end of the year	$ 487,487	**$ 1,205,075**	$ 590,987

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31	2017	2016
Cash provided by (used in)		
Operating activities		
Annual surplus	**$ 1,775,193**	$ 2,525,132
Items not affecting cash		
Amortization	**970,704**	865,893
Loss on disposal of capital assets	**-**	8,000
Change in workers' safety insurance obligations (Note 7)	**23,769**	39,917
Change in employee future benefit obligations (Note 6)	**57,966**	(45,574)
	2,827,632	3,393,368
Changes in non-cash working capital balances		
Accounts receivable	**1,752,462**	(2,007,295)
Inventory held for resale	**(29,235)**	(15,235)
Inventory for own use	**(24,382)**	(120,045)
Prepaid expenses	**625**	-
Accounts payable and accrued liabilities	**388,811**	(171,173)
	4,915,913	1,079,620
Investing activities		
Purchase of capital assets	**(2,108,052)**	(3,112,169)
Financing activities		
Increase (decrease) in bank indebtedness	**(856,736)**	856,736
Change in cash and cash equivalents during the year	**1,951,125**	(1,175,813)
Cash and cash equivalents, beginning of the year	**42,824**	1,218,637
Cash and cash equivalents, end of the year	**$ 1,993,949**	$ 42,824

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

MARCH 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Owen Sound Transportation Company Limited ("OSTC"), an operational enterprise agency of the Province of Ontario, owns and operates a seasonal vehicle and passenger ferry, the M.S. Chi-Cheemaun, from Tobermory to Manitoulin Island and the M.V. Niska, from Moosonee to Moose Factory Island. It also provides vessel management services for the Ministry of Transportation for two vessels, the M.V. Pelee Islander and the M.V. Jiimaan, operating on the Pelee Island service, and a daily air service between the Ontario mainland and Pelee Island during the winter months when the ferry service is not in operation.

OSTC's one issued and outstanding common share is held by the Ministry of Northern Development and Mines (MNDM).

Management Responsibility

The financial statements have been prepared by management. Management is responsible for the integrity, reliability, comparability and presentation of the financial information. The Board of Directors reviews and approves the financial statements.

Basis of Accounting

The financial statements have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and balances with banks.

Inventory

Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined based on a first-in first-out methodology.

Inventory for own use is recorded at the lower of cost and replacement cost.

MARCH 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible Capital Assets

Purchased tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments that extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to OSTC's ability to provide services, or the value of future economic benefits associated with the capital asset is less than its net book value, the carrying value of the capital asset is reduced to reflect the decline in the asset's value. Construction in progress is not amortized until construction is substantially complete and the assets are ready for use.

Amortization is calculated using the straight-line method over the estimated service lives of the assets. The estimated service lives for principal categories of assets are as follows:

Land improvements	10 years
Buildings and improvements	20 years
Equipment and other	5 years
Marine vessels	30 years

Financial Instruments

Financial instruments are recorded at fair value at initial recognition.

In subsequent periods, financial instruments are reported at cost or at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments measured at amortized cost are added to the carrying value of the instrument.

Impairment of financial assets measured at amortized cost are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations.

MARCH 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank Indebtedness

Bank indebtedness includes short term overdrafts.

Income Taxes

As an agency of the Province of Ontario, OSTC is exempt from income taxes and, accordingly, no tax provision is recorded in these financial statements.

Employee Future Benefits

OSTC's eligible employees continue to participate in the defined benefit pension plan of the ONTC (OSTC's former parent). The contributions to the pension plan, a multi-employer defined benefit plan are expensed when due.

Employees hired after April 1, 2002 are eligible to participate in the defined benefit Ontario Public Service Pension Plan. The contributions to the pension plan, a multi-employer defined benefit plan are expensed when due.

In addition, eligible employees are also entitled to non-pension post-retirement benefits such as group life, health care and long-term disability as part of the ONTC multiple- employer group plan. The costs associated with these future benefits are actuarially determined using the projected benefits method pro-rated on service and best estimate assumptions.

Both pension and non-pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to OSTC.

Workers' Safety & Insurance

OSTC is a Schedule 2 employer with respect to workers' safety insurance. As such, OSTC is individually liable for reimbursing the WSIB costs relating to its workers' WSIB claims. The estimated future benefits are determined using actuarial calculations and OSTC recognizes its obligation for these benefits on an accrual basis.

Liability for Contaminated Site

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries. Management is not aware of any contaminated sites.

MARCH 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Vehicle and passenger revenues are generally recognized on the date tickets are sold.

Cafeteria, tuck and terminal gift shop and other revenue is recorded upon sale of goods or provision of service when collection is reasonably assured.

Interest is recognized in the period earned.

Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when the transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Use of Estimates

Preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for items such as accrued grant receivables, accrued liabilities, employee future benefits, workers' safety insurance obligations and useful life of tangible capital assets. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

MARCH 31, 2017

2. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	$ 14,300	$ 14,300
Bank	1,970,906	26,780
In transit	8,743	1,744
	$ 1,993,949	$ 42,824

On March 31, 2017, the company had deposits of $2,791,010 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of $100,000 per depositor per financial institution.

3. ACCOUNTS RECEIVABLE

	2017	2016
Ministry of Northern Development and Mines	$ 385,572	$ 2,356,380
Ministry of Transportation	509,491	263,167
Other	335,910	363,888
	$ 1,230,973	$ 2,983,435

4. BANK INDEBTEDNESS

	2017	2016
Bank balance	$ -	$ 189,250
Less: outstanding cheques	-	(1,045,986)
	$ -	$ (856,736)

OSTC has negotiated a demand operating line of credit with a Canadian Chartered Bank, bearing interest at the bank's prime rate less 0.5%. The maximum draws that could be advanced on this operating line are $2,000,000. At March 31, 2017 the company had undrawn credit capacity under this facility of $2,000,000.

MARCH 31, 2017

5. PENSION AGREEMENTS

Ontario Northland Transportation Commission

The company makes contributions to the Contributory Pension Plan of the Ontario Northland Transportation Commission (the "Plan"), which is a multi-employer plan, on behalf of 13 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to the Plan for 2017 by the Owen Sound Transportation Company Limited was $75,063 (2016 - $83,244). Members contribute 5.00% (2016 - 4.20%) of their earnings between the Year's Basic Exemption (YBE) and the Year's Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan plus 9.00% (2016 - 6.00%) of all other earnings. No contributions are required if the Plan Member has 35 years or more of Pensionable Service and no further benefits accrue.

The Plan is a multi-employer plan, therefore, any pension plan surpluses or deficits are a joint responsibility of Ontario Northland Transportation Commission and other Plan members and their employees. As a result, the company does not recognize any share of the Plan's pension surplus or deficit. The last available report for the Plan was January 1, 2014. At that time the plan reported a $66.0 million actuarial deficit (2011 - $18.3 million actuarial deficit), based on actuarial liabilities of $540.9 million (2011 - $464.8 million), actuarial assets of $483.0 million (2011 - $446.5 million) and a prior year credit balance of $8.1 million (2011 - $Nil). The Ontario Northland Pension Plan is currently underfunded due to losses sustained by the fund during 2008-2009 and the historically low interest rates in the following years. The province has recognized the challenges faced by public sector employers and has provided an opportunity for Ontario Northland to reduce their pension contributions by applying for a funding relief program. Ontario Northland is reviewing their plan, identifying potential cost savings, and seeking input into potential changes to the plan to consider continued sustainability.

Ontario Public Service Pension Plan

The company makes contributions to the Contributory Pension Plan of the Ontario Public Service Pension Plan, which is a multi-employer plan, on behalf of 12 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to the Plan for 2017 by the Owen Sound Transportation Company Limited was $43,822 (2016 - $4,697). Members contribute 6.4% of their earnings between the Year's Basic Exemption (YBE) and the Year's Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan plus 9.5% of all other earnings.

The Plan is a multi-employer plan, therefore, any pension plan surpluses or deficits are a joint responsibility of all Plan members and their employees. As a result, the company does not recognize any share of the Plan's pension surplus or deficit. The last available report for the Plan was December 31, 2016. At that time the plan reported a $795 million actuarial deficit (2016 - $434 million actuarial deficit), based on actuarial liabilities of $25.2 billion (2016 - $23.5 billion) and actuarial assets of $24.4 billion (2016 - $23.0 billion). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

MARCH 31, 2017

6. RETIREMENT AND POST-EMPLOYMENT BENEFITS

The company provides certain benefits, including retirement benefits and other post- employment benefits, to its employees. The post-employment benefit at March 31 includes the following components:

		2017		2016
Current period benefit cost	$	1,359,938	$	1,108,024
Unamortized actuarial loss		(362,534)		(189,487)
Non-Pension Post-Retirement Benefits		997,404		918,537
Accrued Pension Benefit		-		20,901
	$	997,404	$	939,438

Non-Pension Benefits

Payments for these benefits totalled $135,878 (2016 - $123,008) which include payments for current and retired employees. Actuarial valuations for accounting purposes are performed for the non-pension post-retirement benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at March 31, 2016.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and mortality rates. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 4.75% (2016 - 4.25%). For extended health care costs, a 5.3% annual rate of increase was assumed for 2016, decreasing to an ultimate rate of 4.0% per year for 2021. For dental costs, a 4.0% annual rate of increase was assumed.

		2017		2016
Current period benefit cost	$	25,101	$	20,780
Amortization of actuarial loss		49,305		27,070
Retirement benefit expense		74,406		47,850
Interest costs		62,413		45,671
Benefits paid		(57,952)		(45,309)
Total expense for the year	$	78,867	$	48,212

MARCH 31, 2017

7. WSIB FUTURE BENEFIT AND COMMITMENT

As OSTC is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-insures the entire risk of its own WSIB claims and is individually liable for reimbursing the WSIB for all costs relating to its workers' WSIB claims.

		2017		2016
Accrued benefit obligation	$	304,860	$	488,440
Unamortized actuarial loss		(28,116)		(235,465)
WSIB future benefit	$	276,744	$	252,975

An actuarial valuation, dated March 14, 2017, was performed using the projected benefit method.

The actuarial valuation was based on a number of assumptions including, discount rates, wage increases, and WSIB payment rates. The assumptions used reflect management's best estimates. The WSIB benefit liability was determined using a discount rate of 4.25% (2016 - 4.00%), average lost time injury payment rate of 50%, a WSIB administrative rate of 36% and an average lost time injury count of 1.

		2017		2016
Current period benefit cost	$	27,263	$	37,920
Amortization of losses		20,567		39,244
WSIB benefit expense		47,830		77,164
Interest costs		12,668		19,141
Benefits paid		(36,729)		(56,388)
Total expense for the year	$	23,769	$	39,917

8. TANGIBLE CAPITAL ASSETS

At March 31, 2017, there were $2,108,052 (2016 - $3,112,092) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2017, OSTC purchased $2,036,331 (2016 - $3,112,169) worth of tangible capital assets with capital funding. Additional capital funding of $3,525,636 (2016 - $178,687) was received for projects that did not meet the capitalization requirements, including mandatory five year out of water maintenance and inspection, and were expensed or classified as inventory for own use as a result. OSTC used $71,721 (2016 - $Nil) of its own operating funds to cover additional capital costs.

MARCH 31, 2017

8. TANGIBLE CAPITAL ASSETS (continued)

2017

	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Niska I Ferry	Total
Cost, beginning of the year	$ 76,100	$ 20,200	$ 2,029,964	$ 668,757	$ 28,631,700	$ 4,254,632	$ 35,681,353
Additions	-	-	238,181	26,989	1,677,342	165,540	2,108,052
Cost, end of the year	76,100	20,200	2,268,145	695,746	30,309,042	4,420,172	37,789,405
Accumulated amortization, beginning of the year	-	8,080	883,116	514,847	14,716,966	325,357	16,448,366
Amortization	-	1,010	152,182	39,235	630,981	147,296	970,704
Accumulated amortization, end of the year	-	9,090	1,035,298	554,082	15,347,947	472,653	17,419,070
Net carrying amount, end of the year	$ 76,100	$ 11,110	$ 1,232,847	$ 141,664	$ 14,961,095	$ 3,947,519	$ 20,370,335

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8. TANGIBLE CAPITAL ASSETS (continued)

2016

	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Niska I Ferry	Total
Cost, beginning of the year	$ 76,100	$ 20,200	$ 1,796,995	$ 583,988	$ 25,845,269	$ 4,254,632	$ 32,577,184
Additions	-	-	232,969	84,769	2,794,431	-	3,112,169
Disposals	-	-	-	-	(8,000)	-	(8,000)
Cost, end of the year	76,100	20,200	2,029,964	668,757	28,631,700	4,254,632	35,681,353
Accumulated amortization, beginning of the year	-	7,070	741,005	480,682	14,175,655	178,061	15,582,473
Amortization	-	1,010	142,111	34,165	541,311	147,296	865,893
Accumulated amortization, end of the year	-	8,080	883,116	514,847	14,716,966	325,357	16,448,366
Net carrying amount, end of the year	$ 76,100	$ 12,120	$ 1,146,848	$ 153,910	$ 13,914,734	$ 3,929,275	$ 19,232,987

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9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

	2017	2016
Invested in tangible capital assets	**$ 20,370,335**	$ 19,232,987
Unfunded WSIB benefits	**(276,744)**	(252,975)
Unfunded future employee benefits	**(997,404)**	(939,438)
General surplus (Note 10)	**2,689,810**	1,970,230
Accumulated surplus	**$ 21,785,997**	$ 20,010,804

10. BUDGETS

Under Canadian public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and accumulated surplus and changes in net financial assets for comparative purposes. The 2017 budget amounts for OSTC approved by the Board of Directors have been reclassified to conform to the presentation of the consolidated statements of operations and accumulated surplus and changes in net financial assets. The following is a reconciliation of the budget approved by the Board of Directors.

	2017 Budget	**2017 Actual**	2016 Actual
Annual surplus (Page 21)	$ 2,572,500	**$ 1,775,193**	$ 2,525,132
Amortization	-	**970,704**	865,893
Change in unfunded liabilities	-	**81,735**	(5,657)
	2,572,500	**2,827,632**	3,385,368
Capital acquisitions, disposals and write-down	(2,676,000)	**(2,108,052)**	3,104,169
	(103,500)	**719,580**	281,199
Prior year general surplus	103,500	**1,970,230**	1,689,031
General surplus (Note 9)	$ -	**$ 2,689,810**	$ 1,970,230

MARCH 31, 2017

11. CONTINGENCIES

a) OSTC has been named in a number of litigations resulting from a fatal plane crash at Pelee Island on January 17, 2004.

Georgian Express Ltd. operated the air service and as part of the agreement with OSTC maintained liability coverage of $20 million naming OSTC as an additional insured. In addition, Georgian Express Ltd. entered into an indemnity and save harmless agreement in favour of OSTC as part of the operating agreement.

The outcome of these claims are not determinable at the present time and, as a result, is not reflected in these financial statements. However, should the claim exceed the insurance coverage in place, OSTC will be indemnified by the Ministry of Transportation.

b) OSTC is involved in other legal proceedings and believes it has adequate legal defences and/or insurance coverage with respect to these actions. However, it is possible that these cases could result in outcomes unfavourable to the organization. The outcome of litigation is inherently difficult to predict. In the event of an adverse outcome, management believes the amount of any such loss in excess of insurance coverage would not be material.

12. COMMITMENTS

OSTC has entered into an agreement ending March 31, 2018 with a contractor to provide marine services on behalf of OSTC for the ferry service between Moosonee and Moose Factory Island. The agreement requires OSTC to pay $175,536 per season, adjusted annually by changes in the Consumer Price Index, plus 1.5% for a total annual increase of not less than 3% per year.

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13. GOVERNMENT FUNDING

a) Ministry of Northern Development and Mines

Under the terms of a memorandum of understanding with the Ministry of Northern Development and Mines, OSTC receives both operational and capital funding from the Province of Ontario. The operational subsidies are received for the Owen Sound and Moosonee operations based on an approved operating plan and are cash flowed to OSTC on a quarterly basis. These amounts totalled $2,363,000 (2016 - $2,572,000). In 2017, OSTC received no additional funds (2016 - $Nil) to cover specific operational projects.

Capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled $2,036,331 (2016 - $3,112,169). Additional capital funding of $3,525,636 (2016 - $178,687) was received for projects that did not meet the capitalization requirements, including mandatory five year out of water maintenance and inspection, and were expensed or classified as inventory for own use as a result. Capital and operating payments received during the year totalled $7,924,967 (2016 - $5,862,856).

b) Ministry of Transportation

OSTC has an agreement with the Ministry of Transportation to manage and operate the Pelee Island ferry service on Lake Erie between the ports of Kingsville, Leamington and Pelee Island in Ontario and the port of Sandusky in the State of Ohio. Pursuant to this agreement, OSTC received $460,161 in management fees for the 2016 sailing season.

The amended 5 year agreement, ending March 2018, requires the Ministry to pay the OSTC a management fee of $400,000 annually, with annual increases to reflect changes in the Consumer Price Index, up to a maximum of 3% in any year to a maximum of $480,000. The agreement also provided for OSTC to receive a project management fee of up to 2% of the value of the vessel to support capital improvements which OSTC oversees on behalf of the Ministry of Transportation.

The revenue and expenses related to operating this service are not reflected in these financial statements.

MARCH 31, 2017

14. SEGMENT INFORMATION

OSTC is an operational enterprise agency of the Province of Ontario which owns and operates seasonal vehicle and passenger ferries. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

M.S. Chi-Cheemaun

The M.S. Chi-Cheemaun is a ferry that runs from Tobermory to Manitoulin Island.

M.V. Niska I

The M.V. Niska I is a landing craft style ferry that runs between Moosonee and Moose Factory Island on the Moose River, in Northern Ontario.

For the year ended March 31	M.S. Chi-Cheemaun	M.V. Niska I	2017 Total	2016 Total
Revenue				
MNDM subsidy	$ 7,537,467	$ 387,500	$ 7,924,967	$ 5,862,856
Ferry services	7,690,685	21,118	7,711,803	7,057,124
Pelee Island ferry service management fee	460,161	-	460,161	465,969
Interest, freight and other	175,182	178,284	353,466	372,315
Ontario Tourism Marketing Partnership	50,500	-	50,500	-
	15,913,995	586,902	16,500,897	13,758,264
Expenses				
Repairs and maintenance	4,172,276	156,590	4,328,866	977,502
Salaries and wages	3,755,612	101,365	3,856,977	3,936,385
General and administrative	2,038,642	129,122	2,167,764	2,011,832
Fuel	1,016,317	23,825	1,040,142	1,168,547
Services	752,099	229,234	981,333	914,982
Employee benefits	975,630	-	975,630	949,115
Amortization	823,408	147,296	970,704	865,893
Utilities	264,614	3,777	268,391	268,270
Tools and operating supplies	130,923	4,974	135,897	140,606
	13,929,521	796,183	14,725,704	11,233,132
Annual surplus (deficit)	$ 1,984,474	$ (209,281)	$ 1,775,193	$ 2,525,132

MARCH 31, 2017

15. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to OSTC if a debtor fails to make payments when due. OSTC is exposed to this risk relating to its cash and accounts receivable. OSTC holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, OSTC's cash accounts are insured up to $100,000 (2016 - $100,000).

The maximum exposure to credit risk is outlined in Note 3.

Accounts receivable are primarily due from CRA, MNDM and MTO. Credit risk is mitigated by the financial solvency of the Provincial government.

OSTC measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the OSTC's historical experience regarding collections. At March 31, 2017 there is no impairment allowance.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk; interest rate risk, currency risk and equity risk. OSTC is not exposed to significant currency or equity risk as it does not transact materially in foreign currency or hold equity financial instruments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

OSTC is not exposed to this risk as it does not hold any interest bearing investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that OSTC will not be able to meet all cash outflow obligations as they come due. OSTC mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near-term if unexpected cash outflows arise. OSTC is exposed to this risk relating to its accounts payable and accrued liabilities.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

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16. FINANCIAL INSTRUMENT CLASSIFICATION

OSTC's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

2017	Fair Value	Cost	Total
Cash and cash equivalents	$ 1,993,949	$ -	$ 1,993,949
Accounts receivable	$ -	$ 1,230,973	$ 1,230,973
Accounts payable and accrued liabilities	$ -	$ (820,920)	$ (820,920)

2016	Fair Value	Cost	Total
Cash and cash equivalents	$ 42,824	$ -	$ 42,824
Accounts receivable	$ -	$ 2,983,435	$ 2,983,435
Bank indebtedness	$ (856,736)	$ -	$ (856,736)
Accounts payable and accrued liabilities	$ -	$ (432,109)	$ (432,109)

The only financial instruments that are measured subsequent to initial recognition at fair value are cash and cash equivalents.

17. ECONOMIC DEPENDENCE

The OSTC is dependent on the continuing subsidy from the Ministry of Northern Development and Mines to carry on its operations.

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2016/17

OWEN SOUND
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TRANSPORTATION COMPANY